Dart & Kraft, Inc. 1985 Annual Report

Dart & Kraft is a multinational food, consumer and commercial products company that markets such quality brands as KRAFT, Velveeta, Miracle Whip, Sealtest, Philadelphia Brand, Parkay, Breakstone's, Breyers, Lender's, Frusen Glädjé, Celestial Seasonings, Cracker Barrel, Light n' Lively, Catalina, Cheez Whiz, Tupperware, Ultra 21, Modular Mates, Counterparts, Servalier, Wonderlier, Tuppertoys, Serving Center, DURACELL, Durabeam, Daimon, Superpila, HOBART, Scalemaster, Film Mizer, WEST BEND, Total Gym, Precor, Borg, Triple Timer, Stir Crazy, Poppery, MultiCore, FreeStyle, Lifetime, WILSONART, Lokweld, Solicor.

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DART & KRAFT

Dart & Kraft, Inc.

About Dart & Kraft

Dart & Kraft, Inc. is composed of Kraft, Inc., a leading worldwide company in the food industry; Tupperware International, maker of high-quality plastic housewares and educational toys sold directly to consumers through product demonstrations by its independent sales force; Duracell Inc., manufacturer and marketer of the world's leading brand of high-performance alkaline batteries; The West Bend Company, producer of small electric kitchen appliances, physical fitness equipment, direct-to-the-home stainless steel cookware and bathroom scales; Hobart Corporation, the world's largest manufacturer of commercial food equipment and systems; and Ralph Wilson Plastics Co., producer and distributor of *Wilsonart*, the number-one U.S. brand of decorative laminates for interior surfacing.

In 1985, Dart & Kraft derived about 26 percent of its sales and 29 percent of its operating profit from operations outside the United States. Dart & Kraft has over 73,000 employees worldwide and many of its quality products are sold to consumers in approximately 130 countries.

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Financial Highlights

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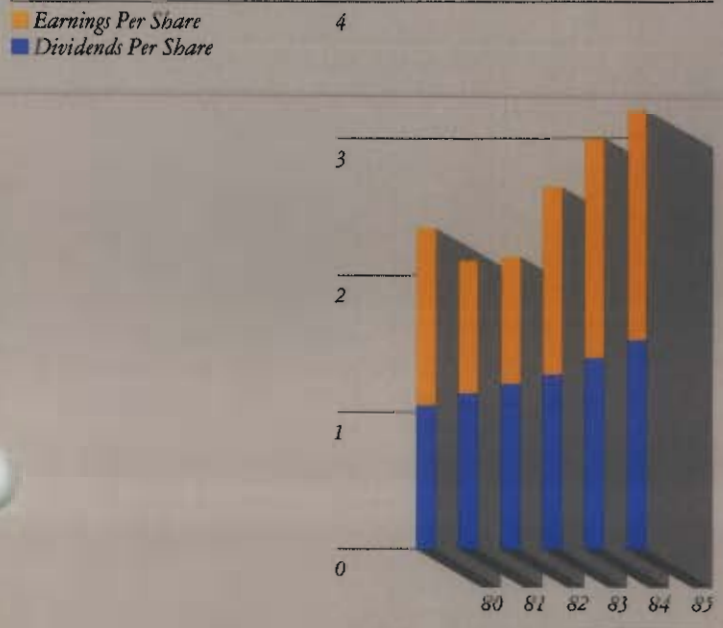
(Dollars in millions, except per share)	1985	1984	1983
Net sales	$9,942	$9,759	$9,714
Net income	$ 466	$ 456	$ 435
Per share	$ 3.22	$ 3.01	$ 2.64
Dividends to shareholders	$ 219	$ 209	$ 210
Per share	$ 1.52⅓	$ 1.38	$ 1.28
Working capital	$1,393	$1,320	$1,739
Capital expenditures	$ 262	$ 269	$ 212
Shareholders' equity	$2,880	$2,598	$2,923
Per share	$19.95	$18.09	$17.77
Long-term debt to equity	15.7%	20.1%	19.3%
Return on average equity	17.0%	16.5%	15.3%
Return on total capital	14.7%	15.5%	13.3%
Average number of common and common equivalent shares (thousands)	144,898	151,589	164,887

Number of shares and per-share data reflect a three-for-one stock split in 1985.

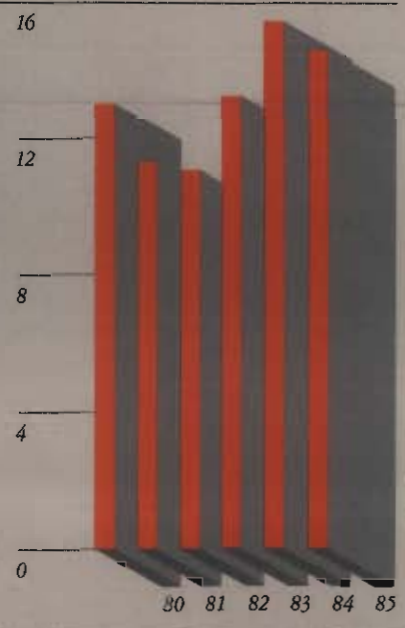
Earnings Per Share and Dividends Per Share

Dollars

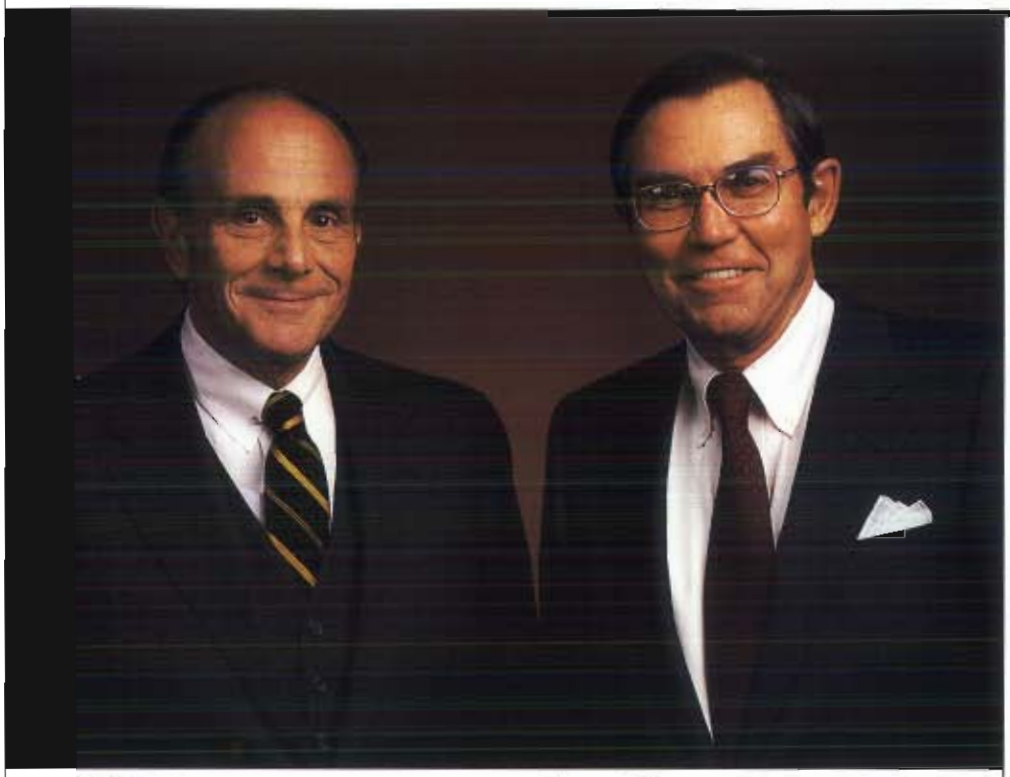


Return on Total Capital

Percent



To Our Shareholders:



John M. Richman *Warren L. Batts*

In fiscal 1985, good growth was achieved by our Kraft, Hobart commercial food equipment and *Wilsonart* brand decorative laminate businesses, while Tupperware's prospects improved as the year progressed. In addition, Duracell completed a year of heavy investment spending associated with the development and introduction of a substantially improved product line.

Earnings per share in 1985 increased 7 percent to $3.22. Net income was $466.1 million, up 2.3 percent on a 2-percent increase in sales which totaled $9.94 billion. Excluding the effect of discontinued operations, sales rose 4 percent. Earnings were aided by a change to the last-in, first-out (LIFO) method of inventory accounting for substantially all domestic inventories.

During the year, we accelerated our internal new business development and acquisition activities. A total of nine businesses were acquired at a cost of approximately $300 million. They include *Frusen Glädjé* super-premium ice cream; Invernizzi S.p.A., an Italian cheese company; and the Westman Commission Company, a full-line foodservice distributor. These and other businesses acquired in 1985 fit our basic criteria. Namely, they are compatible with our current mix of high-quality, primarily consumer-oriented businesses and were purchased at prices that will allow us to achieve good returns over a reasonable period of time. This acquisition trend will continue in 1986 as we seek other candidates that we believe would be

rewarding additions to Dart & Kraft and could benefit from our financial resources and operating strengths. Just recently, we signed an agreement to acquire Vulcan-Hart Corporation, the premier producer of commercial gas cooking equipment, which will provide new product opportunities for our food equipment business.

We regularly review each of our companies in terms of its ability to contribute to our long-term real growth objective. One action resulting from such a review was our recent move to divest most of our small health-care operations. On January 31, 1986, we completed the sale of KitchenAid in a move that was more opportunistic than the result of a strategic reappraisal. The attractive price offered resulted in an after-tax gain of $41 million, or 28 cents per share, to be recorded in the first quarter of 1986.

During the year, the Board of Directors raised the quarterly dividend 10.4 percent to 39 cents per share, or $1.56 per share on an annual basis, and Dart & Kraft shares were split three-for-one. The Board also adopted a share purchase rights plan. While we know of no effort to acquire the company, the rights are designed to assure that all Dart & Kraft shareholders would receive fair and equal treatment in the event of any proposed takeover of the company.

Fiscal 1985 also marked the completion of our company's first five years following the merger of Kraft, Inc. and Dart Industries Inc. in 1980. It was a period during which we enhanced the value of your investment in Dart & Kraft. Our goal has been to rank among the top 20 percent of the companies with which we are compared as measured by earnings growth and return on total capital. We have made some progress in these areas. Since the merger, return on average equity increased to 17 percent from 15.3 percent, and return on total capital rose to 14.7 percent from 13 percent. Including dividends reinvested, the value of each dollar invested in Dart & Kraft stock at the beginning of 1981 had appreciated to nearly $4.00 as of year-end 1985.

In the area of earnings growth, however, our progress has been less than we had expected it would be. Nonetheless, Kraft, Hobart, Duracell and the *Wilsonart* brand decorative laminate business, collectively representing almost 90 percent of our sales and operating profit, have all realized good growth rates and have achieved improved returns over the past five years.

In particular, Kraft has shown considerable growth. From 1980 to 1985, Kraft's compound growth rate in operating profit was 10.3 percent (excluding the LIFO effect), benefiting, in part, from a significant acceleration in new product introductions and manufacturing efficiencies. Cost-reduction programs in production, packaging and distribution generated measurable savings of $30 million worldwide in 1985 alone.

Similarly, five-year compound growth rates for our Duracell and *Wilsonart* businesses have each exceeded 15 percent as has Hobart since it was acquired in 1981.

We are guided by our belief that the foundation for Dart & Kraft's growth will always be rooted in the continual nurturing and extension of our many strong consumer brands. In maintaining and building on the relative market positions of these brands, we improved our already substantial market positions, retained excellent relationships with our retail customers, and sharpened our sales and marketing resources.

Fortifying this solid foundation, we have acquired 25 small and medium-sized businesses at a cost of nearly $1 billion. And, we have divested 30 businesses representing more than $1.2 billion in sales. For the most part, these businesses could not adequately contribute to the achievement of our financial objectives. Our acquired consumer products businesses—such as Celestial Seasonings, Lender's, Frusen Glädjé and Precor—as well as those businesses associated with the rapidly growing foodservice industry are expected to further enhance our returns and growth.

We also put our cash to productive use for shareholders when we repurchased 13 percent of Dart & Kraft's outstanding shares for $532 million in 1984. More recently, at its March 1986 meeting, the Board authorized a new program to purchase up to nearly 7 percent of our outstanding stock in market transactions.

Throughout the five-year period, we have replaced approximately 90 percent of our top management, many of whom were senior executives who joined one of our predecessor companies shortly after World War II and were approaching retirement age when Dart & Kraft was formed. We have, therefore, revitalized our management organization in a constructive, orderly way and have in place a team with the skills needed to move

Dart & Kraft forward. We recognize that providing for the future leadership of the company requires our continued development of superior management, and we are placing increased emphasis on this effort.

While we accomplished a great deal over the last five years, the period was not without its disappointments. Tupperware has been the major detraction from an otherwise generally successful beginning for Dart & Kraft. In retrospect, we, like others in the direct-selling industry, were slow to take corrective action with a company that had such a long-standing record of success and, as a result, we failed to respond quickly enough to the changing needs of dealers and consumers. For the last year-and-one-half, however, new Tupperware management has moved with dispatch and determination to make up for lost ground. The result is that Tupperware is a very different organization, with more effective incentive and promotional programs, enhanced new product development, increased responsiveness to the marketplace and a brighter future.

We also intend to press harder to take full advantage of every possible internal growth opportunity. Though we have increased annual research and development spending by more than 50 percent during the past five years and have invested $1.4 billion of our resources in promising capital projects, we hope to identify more internal projects in the future. Spending for research and development will increase 10 percent to about $95 million in 1986. We expect capital expenditures to range between $275 million and $300 million and advertising expenses to increase 13 percent to about $500 million.

With our accomplishments and challenges clearly in hand, we have entered, for the first time since the merger, a period in which the obvious obstacles that have impeded our progress, such as the restructurings and write-offs of the early 1980s and the necessity, more recently, to revitalize Tupperware, can no longer be excuses for failing to accelerate our rate of growth.

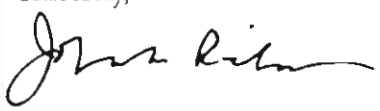
We certainly have the financial strength to support accelerated growth. At year-end, Dart & Kraft's cash and temporary investments, net of short-term borrowings, amounted to $393 million. Our debt-to-equity ratio is a healthy 15.7 percent; and our credit rating with the major agencies is double-A. We intend to maintain a quality balance sheet while achieving higher returns and real growth.

As to the longer term, our strategy will not be dramatically different. Contrary to the current industry trend, we continue to believe that there are benefits to be derived from our particular type of controlled and related diversification. For example, our ability to balance the cash-generating capacity of our retail food business and Tupperware with higher-growth, cash-using businesses like Duracell is an important benefit.

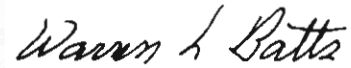
In the final analysis, with the high quality of our people and our products, we view our opportunities as virtually limitless and expect better results from all of our major operations in 1986.

Our performance and accomplishments over the past five years speak for themselves and stand as evidence that our period of consolidation and restructuring—like the merger on which it was built—solidly positions Dart & Kraft for the future.

Sincerely,



John M. Richman
Chairman and
Chief Executive Officer



Warren L. Batts
President and
Chief Operating Officer

March 6, 1986

Capitalizing on our strengths

The exceptionally strong consumer franchises, represented by Dart & Kraft's many high-quality brands, are paving the way for future growth. Through their extraordinary successes, Dart & Kraft is able to fund the internal development of new products and the acquisition of new lines while providing value to shareholders. In essence, Dart & Kraft is capitalizing on the enduring strength and performance of some of the world's finest consumer products. These actions are described in the following pages.

Food Products

Kraft, Inc. accounts for 71 percent of total Dart & Kraft sales. In 1985, Kraft's sales were up 3 percent to $7.1 billion on a 3-percent increase in tonnage. Operating profit rose 14 percent to $700 million, due mainly to a strong performance by the Retail Food, Foodservice and Dairy groups, with the change in the method of inventory accounting also having a positive effect.

Kraft has operated over the past two years with the objective of achieving a balance between improvements in both profit and return on investment while also funding productive investments for growth. During 1985, Kraft acquired new businesses, developed new products internally and built up its retail food and foodservice sales forces.

Blue-ribbon quality is one of the reasons consumers prize Cracker Barrel, J. L. Kraft Select *and* Casino *brand natural cheeses.*

Retail Food Group profit and returns were at record levels. Its three operating divisions—Refrigerated, Grocery and Retail Venture—all had an active and successful year.

The Refrigerated Products Division achieved strong results in all three of its major categories—process, natural and cream cheese. In process cheese, new advertising campaigns for *Kraft* Singles and the *Velveeta* product line, along with the national expansion of *Velveeta* Extra Thick Slices and *Velveeta* Mexican loaf, helped build volume and share for all key items. Also, traditional *Velveeta* pasteurized process cheese spread is enjoying an all-time high in share.

In 1985, profitability in Kraft's natural cheese category improved significantly as a result of higher margins. Although volume continued to decline, a strategically focused region-by-region sales program in the second half of the year appears to have substantially arrested volume declines in this business.

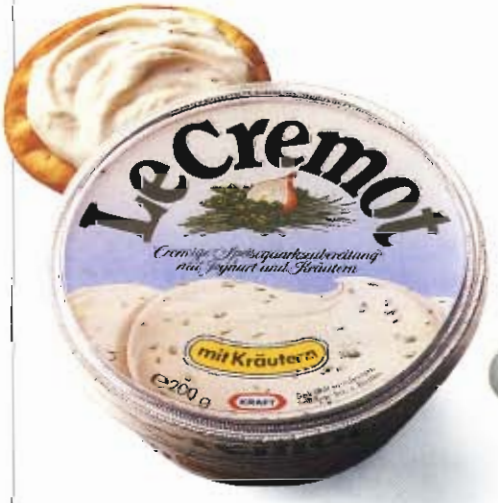
Tonnage of *Philadelphia Brand* cream cheese was up with its category, and the product maintained its number-one position. During the year, Kraft began the national rollout of Light *Philadelphia Brand* process cream cheese, another important item in its growing variety of products targeted to calorie-conscious consumers. Initially introduced into 20 percent of the United States, expansion to the remainder of the country will continue in 1986.

The Grocery Products Division's outstanding results were buoyed by the strong performances of Kraft's *Miracle Whip* salad dressing, *Kraft* real mayonnaise, dry packaged dinners and barbecue sauce.

Viscous product growth was stimulated by the successful development and marketing of reduced-calorie versions of *Miracle Whip* salad dressing and *Kraft* real mayonnaise. Both products quickly became the leading share brands in their categories. Net tonnage addition to Kraft's viscous franchise by these new products was significant, and Kraft's combined

Velveeta pasteurized process cheese spread is now available in extra thick slices for bigger bites and heartier appetites.

Le Cremot, *Kraft's new quark cheese sold in Germany, spreads as nicely as it pleases.*



Velveeta
KRAFT
24
TRANCHES DE
20.6 g
SLICES
KRAFT
SINGLES
As always, 1/2 the calories of butter or margarine
PHILADELPHIA
BRAND
CREAM CHEESE
NET WT. 8 OZS. (227 g)
SHARP
Cracker Barrel
NATURAL
KRAFT
KRAFT
VELVEETA
KRAFT
Dorabm

KRAFT
DINNERS
Macaroni & Cheese Dinner
CELESTIAL SEASONINGS HERB TEAS
NEW
WITH REAL LEMON
CAFFEINE FREE
NET 63 g (2.2 OZ.)
24 TEA BAGS
LEMON ZINGER
KRAFT
BARBECUE SAUCE
THOUSAND ISLAND
DRESSING
Whip
THE BREAD SPREAD
CREATED BY
KRAFT
Miracle Whip
Salad Dressing
32 FL. OZS. (1 QT.) 0.95 L
NO PRESERVATIVES
RAISIN 'n HONEY
Lender's
Bagels
ORIGINAL
BARBECUE SAUCE

share of the total segment increased.

The expansion of *Velveeta* shells and cheese dinner resulted in higher share, tonnage and profit. Now in its second year, this packaged dinner has become the fourth-largest brand in the category and continues to grow. Kraft's standard macaroni and cheese dinner also had renewed volume gains.

Tonnage and share of the company's barbecue sauce business increased significantly in 1985 as the *Kraft* "Thick 'n Spicy" premium line continued to win consumer acceptance. Despite vigorous competition, volume of Kraft's original branded barbecue sauce grew 4 percent as well.

Kraft responded to increased competitive activity in the pourable salad dressing category with a series of marketing programs as well as the national launch of a new *Presto* Italian dressing. Tonnage in the category increased about 2 percent and share advanced slightly.

In margarine, Kraft's focus in the past two years has been more on profitability than on volume growth in this intensely competitive business. Lower edible-oil costs helped to improve profitability in 1985 on reduced volume of *Parkay* margarine.

The Venture Division, with responsibility for two 1984 acquisitions—Lender's Bagel Bakery, Inc. and Celestial Seasonings, Inc.—had

Kraft Limited is bringing the taste of Mexico to Canada with its new Sombrero *product line.*

an active and successful year. Despite competition from a new entrant to the marketplace, Lender's increased its distribution and share of grocers' freezer space in 1985. Construction to significantly increase the production capacity of bagels, necessitated by Kraft's geographic expansion of the Lender's line and its growing popularity beyond the Northeast, is due to be completed in 1986.

Kraft continued to build the *Celestial Seasonings* herb tea business, which resulted in a strong sales performance in 1985. New flavors, *Lemon Zinger, Raspberry Patch, Island Orange* and *Cranberry Cove,* were added. Celestial Seasonings' reach to consumers was further extended as Kraft strengthened the product's channels of distribution and created new marketing programs to also generate volume growth. Profit was off, however, due to these business-building investments, including the first-ever television advertising campaign for Celestial Seasonings launched during the year. The development of new product lines for this distinctive brand is a high priority.

Kraft's Venture Division was also active in other new business projects, including an agreement with DNA Plant Technology Corporation for the development and marketing of *Vegisnax* raw vegetables, such as carrots and celery, bred for superior taste and texture. Additionally, Kraft entered into an exclusive agreement early in 1986 with San Francisco French Bread Company to market a line of sourdough products.

The International Group, representing 24 percent of Kraft's total sales, reported lower profit mainly due to poor results in Germany, the largest of the group's operations in Europe. Kraft Limited in Canada also fell short of year-earlier results.

In Germany, the continuing loss of core-brand business to aggressive competition from discounters and the failure of several new product introductions to generate the expected consumer response were factors in the decline. New marketing strategies combined with cost-reduction programs are in process to improve the underlying profitability of this substantial business.

The remaining European operations, led by Kraft S.p.A. in Italy, performed quite well during the year. In May, the company acquired a majority interest in Invernizzi S.p.A., a Milan-based producer and distributor of natural cheeses, including Gorgonzola and mozzarella; a variety of process

Australians are spicing it up with Kraft Home Style *sauces in five flavor varieties.*

Kraft Light reduced calorie mayonnaise and Miracle Whip *Light reduced calorie salad dressing carry on two well-established traditions.*

cheeses; butter and meat products.

In Canada, general softness in the grocery business, combined with intense price competition, necessitated strong defensive programs in Kraft's cheese, peanut butter and dry packaged dinner categories. The newly restructured Canadian foodservice division, which sells Kraft-manufactured products to major foodservice operators as well as independent distributors, expanded its customer base significantly and increased tonnage over 1984.

In the Pacific area, Kraft Australia had an excellent year despite competitive pressures in the cheese business from several dairy cooperatives. With the acquisition of the Everest Group, a small, regional Australian producer of pasta, ice cream and frozen dinners, Kraft gained a base that will enable it to diversify from its traditional dependence on cheese. Kraft's operation in the Philippines withstood another year of economic and political turmoil to register a gain in income.

In Latin America, declining petroleum prices and cutbacks in government spending contributed to a difficult economic climate in Venezuela and depressed results for Kraft. Anticipating that these circumstances are longer term, the company is responding by introducing a new line of lower-cost products. In Mexico, volume and profit increased despite the terrible conditions caused by the earthquake and a 60-percent inflation rate. During the year, Kraft sold its small business interest in Brazil.

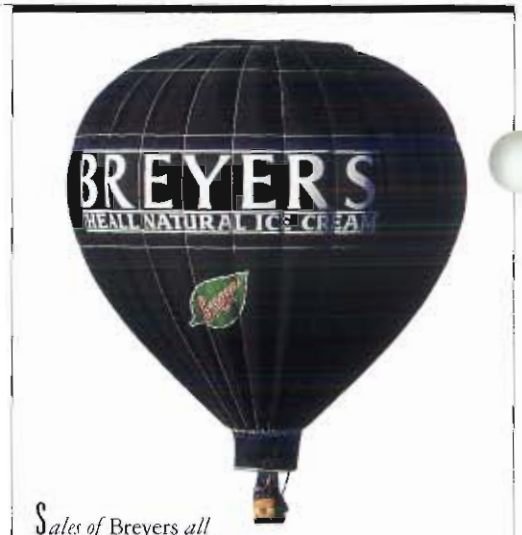
The big scoop from Kraft was the acquisition of Frusen Gladjé *super-premium ice cream for those who "enjoy the guilt."*

Dairy Group accounts for 9 percent of total Kraft sales. Registering a 10-percent volume gain excluding fluid milk, Dairy Group profit was up substantially in 1985 as volume and share gains were posted by virtually every product line. A more consumer-directed marketing program, the phase-out of the fluid milk business and excellent sales execution were some of the factors contributing to the strong 1985 performance that reversed three-year declines in profitability.

The group had a particularly good year in ice cream, with all major brands achieving significant tonnage gains. Early in the year, Kraft rounded out its ice cream lineup with the acquisition of *Frusen Gladjé,* a growing force in the super-premium category. Since the brand was acquired, its business has tripled as Kraft moved quickly to expand its sales areas and promote this quality product in a new television and print advertising campaign that aptly captures the psychology of the super-premium ice cream consumer.

In the premium ice cream category, performance of the *Breyers* all natural line benefited during the year from geographic expansion into nine Western states as well as strong advertising and promotional programs.

Sealtest ice cream in 1985 celebrated its 50th anniversary with a 16-percent volume increase. Contributing to this strong performance was the introduction of its proprietary *Cubic Scoops* flavors. *Polar B'ar* ice cream squares and *Light n' Lively* ice milk both registered double-digit volume growth. The *Polar B'ar* line



Sales of Breyers *all natural ice cream took off, propelled by the brand's entry into nine Western states.*

profited from the addition of two new flavors— peanut butter crunch and heavenly hash.

Cultured dairy products were also strong performers in 1985, with *Light n' Lively* lowfat yogurt tonnage up significantly as a result of effective consumer and trade promotions and the continued success of its handy six pack. *Breakstone's, Sealtest* and *Light n' Lively* lowfat cottage cheese and *Breakstone's* and *Sealtest* sour cream also had solid tonnage increases.

Breyers yogurt, the only Dairy Group product to show a volume decline in 1985, was restaged in late summer with an improved product containing more and larger chunks of fruit in new, more graphically appealing packaging. With

The puzzling thing about Sealtest *ice cream's* Cubic Scoops *is what we ever did for fun without them.*

Light'n Lively
Black Cherry
Lowfat Yogurt
WITH OTHER NATURAL FLAVORS
1% MILKFAT
Lowfat Yogurt
BREYERS
THE ALL NATURAL ICE CREAM
Breaks
ALL NATURAL
GRADE A
SOUR
CREAM
PASTEURIZED
HOMOGENIZED
Sealtest
Ice Cream Parlor Taste
Vanilla flavored
Ice Cream

KRAFT
FOODSERVICE
Quali-Fry
RED LABEL
Liquid Shortening
For Deep Fat Frying
KRAFT
Cheez Whiz
KRAFT
Catalina
FRENCH DRESSING
KEEP REFRIGERATED
PHILADELPHIA
BRAND
CREAM CHEESE
PASTEURIZED
KRAFT
NET WT. 48 OZS. (3 LBS.) 1.36 kg
KEEP REFRIGERATED
KRAFT
Stagger Stack
HIGHER FLAVOR
Super
PASTEURIZED PROCESS AMERICAN CHEESE
Vertical Pack
SAUCEWORKS
KRAFT
Barbecue
sauce

Frozen Oriental-style breaded shrimp distributed by Kraft Foodservice bear a mark that distinguishes them from the competition.

hard-hitting competitive advertising for added support, *Breyers* yogurt is now showing good growth.

Kraft Foodservice Group, which represents 13 percent of total Kraft sales, generated tonnage growth at a 12-percent rate in 1985, excluding the effect of recent acquisitions. As the share of the American food dollar spent for meals away from home approaches 50 percent, Kraft Foodservice's growth and returns are higher than the industry overall. There are unique characteristics in Kraft's foodservice business that provide competitive advantages. Because the company manufactures nearly 50 percent of the volume it sells, Kraft is able to capture profit as both producer and distributor. Through the company's extensive research and development capability, Kraft Foodservice is also in a position to create custom products to the specifications of key national accounts. Additionally, Kraft's foodservice business adds value to Retail Food Group acquisitions by broadening distribution of products such as *Lender's* bagels and *Celestial Seasonings* herb teas.

Kraft Foodservice is expanding its coverage by acquiring a number of smaller distributors to establish itself in certain areas and increase its presence in others. Two acquisitions were completed during the year. The Westman Commission Company, acquired in June, is a full-line distributor serving customers in seven states in the Rocky Mountain area. Seaboard Foods, Inc., a broadline distributor in North Carolina, was acquired in December. Kraft also has signed letters of intent to acquire distribution businesses in Kansas City, Chicago, Phoenix and the New York area in 1986.

The Foodservice Group continued to develop innovative new selling systems in 1985. For example, a portable entry terminal for sales representatives is now in use to shorten order-processing time and to support the fast pace of the group's next-day delivery service. Additionally, a computerized restaurant management system—"*Kraft* Link"—connects customers directly with the nearest Kraft Foodservice location and assists them with menu, food-cost and sales analysis as well as order entry and inventory control. The system also provides customers with automatic price updating, online order verification and additional functions using optional software for general ledger and payroll processing, labor scheduling and tip allocation.

Packed for individual pleasure, Philadelphia Brand *cream cheese is a spreading success with on-the-go consumers.*

Kraft Foodservice tonnage from continuing operations grew 12 percent. Acquisitions brought the overall increase to 18 percent.

1984 1985

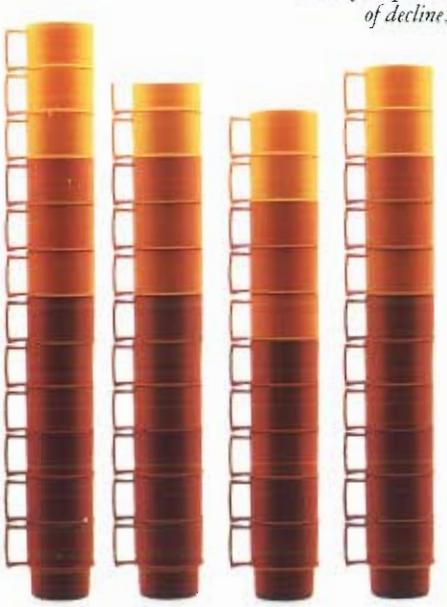
The Industrial Foods Group, which accounts for 7 percent of Kraft's revenues, supplies food manufacturers with edible oils and edible-oil-based products, cheese items, snack seasonings, imitation cheese, flavorings, confections, dairy and nondairy proteins and other ingredients.

Although tonnage was up in 1985, operating profit was off significantly as margins were negatively impacted by price declines in the overall edible-oil market. Kraft's industrial ingredients business achieved higher volume and profit.

The group took two important steps in 1985 toward improving its ongoing returns. The first was the sale of the industrial emulsifier business, which, while profitable, was not capable of earning satisfactory returns. The second was the decision to phase out by September 1986 its California oil refining operations, which, in essence, removes Kraft from a marginally profitable, low-return market for bulk oils. Kraft will continue to supply certain more profitable specialty oil products to the West Coast from its two refineries located in Tennessee and Illinois.

Direct Selling

Tupperware's U.S. operations achieved a 7.5-percent increase in sales, reversing a two-year period of decline.



Tupperware International, which accounts for 8 percent of total Dart & Kraft sales, had a profit decline of 19 percent to $112 million and a sales decrease of 2 percent to $762 million.

Although 1985 results were down, Tupperware recorded increased sales and profit in the fourth quarter, reflecting the effectiveness of new products and domestic programs introduced earlier in the year.

Tupperware today is a very different organization from what it was only a year ago. A number of top management changes have been made, and operating disciplines fundamental to a consumer products company, such as marketing, marketing research, product management and sales forecasting, have been established.

These functions extend the effectiveness of Tupperware's basic strengths: its powerful consumer franchise; the unequaled quality and innovativeness of its product line; informative product demonstration; and a unique sales and direct-delivery distribution system.

In 1985, the company began employing new and meaningful incentives for hostesses, dealers and managers. To attract and retain dealers, Tupperware instituted a program that provides greater sales force profitability and better rewards the recruitment of other dealers. Dealer longevity has increased by approximately one-third. Also, Tupperware has linked incentive and promotional awards for new and existing managers to productivity improvements and success in training new dealers. To make a Tupperware career more attractive in relation to other job opportunities, an independent insurance and financial services trust was created for the sales force that enables participation in group health, life and accident insurance coverage and personal investment programs.

Many Tupperware customers prefer the traditional home party. But, for those whose lifestyles restrict participation because of time pressures or other considerations, Tupperware has contemporized the party format while maintaining its benefits. Dealers now are encouraged to tailor parties in length and content to the needs of hostesses and guests, while still adequately demonstrating products.

The contemporary party format has been designed for offices, clubs and other convenient locations. And, although most parties are attended by women who have families, non-traditional customers—singles and men—are being attracted to the system.

Tupperware recently introduced a preview catalog, an abbreviated version of its standard catalog, that is mailed to consumers who have been invited to parties. Given an opportunity to review the line at leisure, guests come to parties pre-sold on items appealing to them. As a result, sales per guest and sales per party have improved. Average sales per party, in fact, were up 15 percent in 1985.

Two 1985 marketing events at Tupperware were especially noteworthy. Early in the year, an important television campaign was launched to support the *Modular Mates* storage container line. Good consumer response, as indicated by increased sales, proved that straight product

Have a party with these crowd-pleasing additions to the Tupperware buffet service line.

Tupperware's growing line of Modular Mates space-saving storage containers are fitting into kitchen cabinets with the greatest of ease.

I

Pyrex

advertising is a viable stimulus for traditional Tupperware products.

Ultra 21 Ovenware, a unique, high-quality plastic line, was introduced in the spring. Backed by heavy advertising and promotion, *Ultra 21* Ovenware—which is equally at home in microwave ovens, conventional ovens at temperatures of 500 degrees, dishwashers, freezers and on dining tables as serving pieces—spurred consumer interest in Tupperware and lured many former consumers back to *Tupperware* parties.

Ultra 21 *Ovenware by Tupperware—the new meal-preparation system that bakes it, microwaves it and serves it—now features an item that drains it then steams it!*

According to an independent marketing research firm, the *Ultra 21* line captured approximately 25 percent of all nonmetal ovenware sales in the June-through-December period.

While the *Ultra 21* products were generating new sales volume, Tupperware's traditional product line was stimulated in 1985 with the addition of five new products, two new toys and new color introductions.

As with any product in the early stage, particularly one with the characteristics of *Ultra 21* Ovenware, which is made from an advanced plastic compound, production expenses are high. Tupperware experienced some margin erosion due to high raw material and manufacturing costs. While margins are improving, this situation will continue until higher sales and production experience at the year-old resin production facility in Augusta, Georgia, are achieved. Real cost reductions are anticipated in 1986.

Domestic advertising expenditures totaled $13 million in 1985 and will increase in 1986 to $15 million in support of baseline products, *Ultra 21* Ovenware and the *Tuppertoys* line.

New programs on tap for 1986 include testing of a toll-free 800 number in television commercials and print advertising that allows a prospective customer to call for information and product literature. To modernize and raise the overall image of Tupperware in the minds of consumers, its standard product catalog is being given a whole new look. The "preview catalog" will also be available in this new format. A direct-mail experiment to provide leads for managers and dealers in identifying consumers who are interested in hosting a party will be conducted.

New programs implemented in the United States, as well as sensational new products, helped Tupperware dealers, managers and distributors achieve greater rewards from their careers.

The Ultra 21 *Roasting/Baking Set fits right into the smallest of microwave ovens. Like all other* Ultra 21 *products, it lets the dishwasher do the dirty work.*

Tupperware management will continue to introduce new products and discontinue some slower-selling items. Ten new baseline products, seven *Ultra 21* Ovenware items and two new toys are scheduled for 1986.

The *Tupperware* party plan changes made in the United States were also implemented in Canada in 1985. *Ultra 21* Ovenware was introduced there as an imported item. While Canadian profit was about flat in 1985 due to duty and freight costs, the Canadian party plan also experienced some rejuvenation as unit and dollar sales increased over 1984.

In 1986, Tupperware's major goal is to stabilize its international business, building a base for growth in 1987 and beyond. Internationally, market penetration lags that of the United States and, as a result, provides real long-term opportunity for growth in most developed countries. Tupperware will be implementing changes in its distribution organization similar to those instituted in the United States.

To help create an environment in which these changes can be quickly and successfully absorbed, the *Ultra 21* Ovenware line will be gradually rolled out. It was introduced in Japan late in 1985 and will be introduced in Europe and Australia in 1986.

Consumer Products

Consumer Products, which in 1985 included Duracell, West Bend, Health Care and KitchenAid, accounts for 13 percent of total Dart & Kraft sales. Operating profit declined 22 percent to $92 million on a sales gain of 6 percent to $1.3 billion.

Duracell Inc., which represents about 65 percent of this segment's sales, posted increased sales. However, profit declined largely due to its significant investments in product performance improvements and the net impact of foreign-made *Duracell* batteries that have been diverted by exporters to North American markets.

Duracell's alkaline battery business continued to achieve good gains in the United States where unit sales growth exceeded 10 percent in 1985.

Duracell's new six-volt lithium battery has exceptionally long storage life, operates at below freezing temperatures and gives excellent performance at high-drain rates, making it ideal for such products as this new fully automatic camera.

Unit sales rose at an even faster rate in Europe and in the more underdeveloped alkaline markets of Latin America, Australia and Southeast Asia.

The introduction of a substantially improved alkaline product line followed more than two years of concentrated research, engineering and manufacturing activity. As part of that program, extensive design changes were made to Duracell's most commonly used alkaline batteries to substantially lengthen their service life by increasing the amounts of active chemicals.

In September, Duracell introduced this new generation of alkaline batteries with a heavy advertising campaign, stressing the 30-percent longer service of the new *Duracell* batteries in comparison with their predecessor products. This improvement helps Duracell maintain its position as a technological and marketing leader in the alkaline category. The new products are expected to increase Duracell's share of the alkaline market and, by offering the consumer more value, to further build the alkaline share of the total battery market. The continuing alkaline battery growth trend validates research that indicates consumers rate long service life as the single most important product attribute.

In Europe, Duracell's second-largest market, the company fully realized manufacturing and sales efficiencies that were anticipated with the 1982 purchase of the continental European operations of British Ever Ready, with its *Daimon* and *Superpila* battery brands. During the year, the *Duracell* and *Daimon* alkaline brands further penetrated the European alkaline market, while sales of the company's zinc carbon batteries declined in line with the continuing erosion of the zinc carbon market.

Because of the strong U.S. dollar in relation to many other currencies, importers have found it lucrative to bring foreign-made *Duracell* batteries into the United States and Canada. These "gray imports" are then sold in competition with batteries made in those markets. Duracell's efforts to curb the inflow of foreign-made *Duracell* batteries have not yet been effective.

During the year, Duracell complemented its Canadian rechargeable battery business with the purchase of

Good volume increases in the United States and in most international markets led to a 14-percent gain in Duracell's worldwide alkaline volume.

1984 1985

Duracell's newly designed "We Never Stop" trucks were highly visible on the highways in 1985. True to the slogan, they never stop promoting Duracell's commitment to quality.

DURABEAM
DURACELL
SUPERPILA
DURACELL
DURACELL
DURACELL
DURACELL
DURACELL
MN1604
9 VOLT
DURACELL
Now Lasts Even Longer
SAVER PACK

WEST BEND
1
2
3
1 59 09
HRS
MIN
SEC
WEST BEND

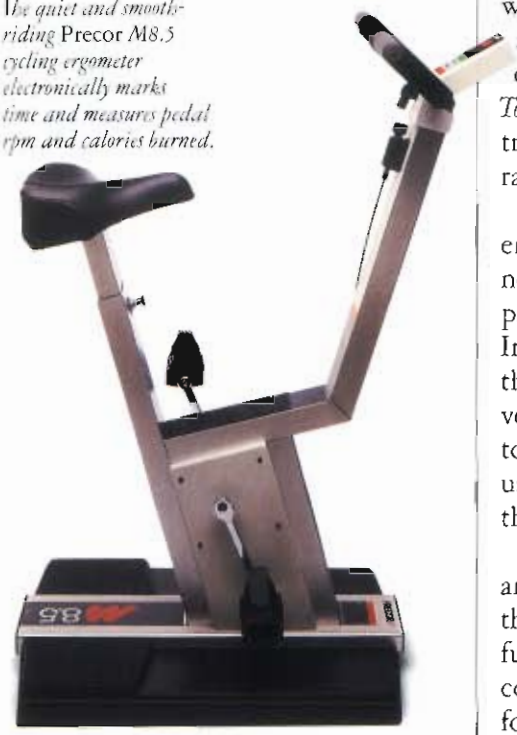
the *Dynacharge* brand. Rechargeable batteries have become an acceptable power source with consumers in Canada and represent nearly 10 percent of all batteries sold. This acquisition contributed favorably to the company's Canadian results, partially offsetting the impact of "gray imports."

Duracell's investment in emerging technology is beginning to yield results. Demand for its line of zinc air batteries used in hearing aids and other medical devices remained strong, with sales nearly 30 percent ahead of last year.

In lithium battery technology, Duracell's six-volt DL223A battery, the first high-rate, replaceable lithium battery for use in consumer devices, had its first application in the Olympus 35mm "Quick Shooter" camera and became the recommended power source for the new Minolta AF-Tele camera.

In 1985, Duracell's worldwide lighting products business, sold mostly under the *Durabeam* trademark, had favorable unit growth over the prior year. Projections for 1986 call for further improvements here and abroad with the addition of new products, including the *Tough Torch* and *Work Torch* in Europe, to strengthen Duracell's position in lighting products.

Here is the space-saving, under-the-cabinet West Bend Oven·Up *toaster/oven/broiler in toasting position. A turn of the side handles expands the unit to oven position for baking and broiling. It's equally as versatile for counter-top use.*



The quiet and smooth-riding Precor *M8.5 cycling ergometer electronically marks time and measures pedal rpm and calories burned.*

The West Bend Company experienced a profit decline in 1985 as soft market conditions in the housewares industry adversely affected sales volume. Also impacting profit was its direct-to-the-home high-quality, stainless steel cookware line, which experienced significant export sales declines to Japan.

In 1984, West Bend phased out the low-growth humidifier and retail aluminum cookware businesses and redirected its focus to the high-growth physical fitness equipment business, which takes full advantage of the company's manufacturing and distribution strengths. The physical fitness equipment market has shown exceptional growth over a relatively short period of time. In 1983, the industry grew 33 percent from $723 million to reach $1 billion in consumer sales in 1984. By the end of this decade, projections show sales soaring to $2.5 billion, with an annual 15 percent compounded growth rate. West Bend's recent acquisitions in this industry—*Precor* and *Total Gym* physical fitness equipment along with *Borg* bathroom scales, a natural adjunct—enhanced West Bend's overall profitability in 1985. *Precor* and *Total Gym* won high marks from the trade and several consumer goods rating agencies during the year.

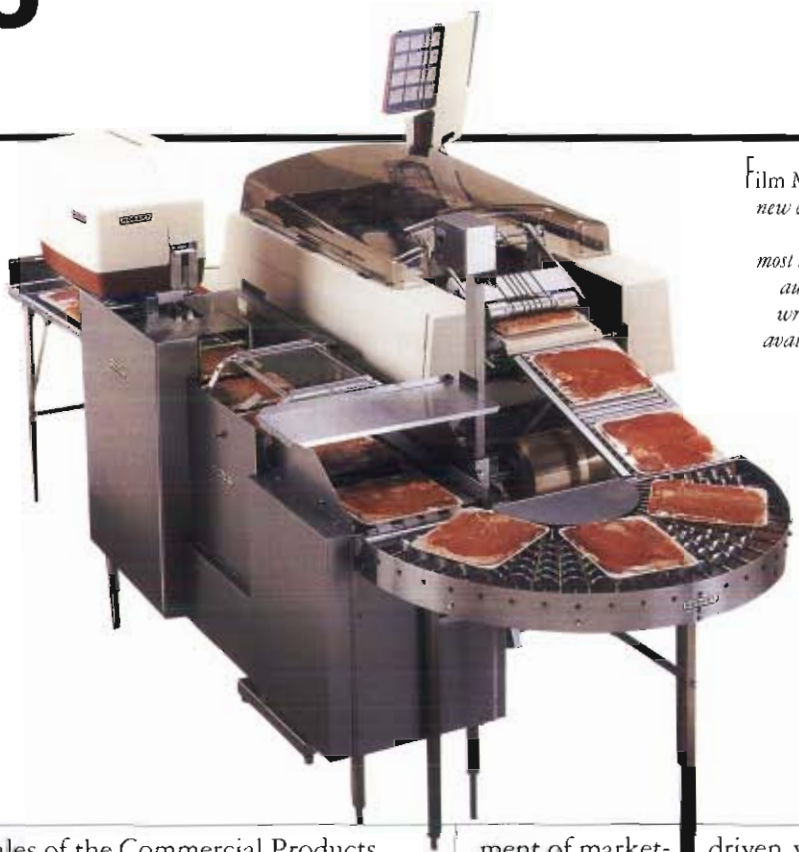
West Bend has also placed added emphasis on its small-appliance business with the development of new products like its *FreeStyle* Cordless Iron, which achieved good results in the year, and its soon-to-be-introduced versatile and space-saving *Oven·Up* toaster/oven/broiler that can be used under the cabinet as well as on the counter top.

Health Care operations were reexamined during the year to determine their potential in Dart & Kraft's future. Based on this review, the company moved to divest the following businesses: Absorbent Cotton Company, Delta Medical, Sterile Products and Seamless Hospital Products.

KitchenAid, Inc. sales rose during the year on unit volume growth in the United States for dishwashers, compactors, disposers and cook tops. Profit declined due to competitive margin pressure for dishwashers and lower oven volumes. On January 31, 1986, the sale of KitchenAid to Whirlpool Corporation was completed following an appellate court decision affirming an earlier ruling that the transaction would not be anti-competitive.

Borg bathroom scales from West Bend are one sure measure of physical fitness.

Commercial Products



Film Mizer, *Hobart's new electronic stretch wrapper, is the most advanced, fully automatic weigh/wrap/label system available in today's marketplace.*

Sales of the Commercial Products segment, which includes the Hobart commercial equipment and *Wilsonart* brand decorative laminate businesses, increased 7 percent to $801 million on a continuing-operations basis, and operating profit rose 10 percent to $94 million. Total Commercial Products segment sales and profit declined 11 percent and 7 percent, respectively, due to the absence of results of the plastic specialties and packaging operations that were sold in 1984.

Hobart Corporation, which constitutes 69 percent of the sales of this segment, achieved good gains in sales and profit as a result of healthy unit growth in foodservice cooking equipment, warewashers and refrigeration products as well as supermarket weighing and wrapping equipment. Food preparation equipment sales were relatively flat.

Hobart's operating thrust in recent years has been focused on the development of market-driven, value-added products and improved customer service. As a result, nearly 40 percent of 1985 sales was from equipment introduced since 1981.

The U.S. foodservice equipment industry continued to grow, due in large part to the expansion of fast-food and other chain restaurants and more varied menu selections than were offered in previous years. These trends translate to growth opportunities for Hobart's commercial equipment business.

The fast-food segment, in particular, has benefited from Hobart product innovation and new product applications. Hobart's new energy-efficient gas convection fryer, as well as the adaptation of labor-saving warewashers, has led to further productivity gains for operators.

The company also introduced to the overall foodservice industry several new line extensions, including a heavy-duty pizza mixer, a small high-speed slicer and a newly designed food cutter.

In addition to internally developed new products, Hobart moved to further augment its product line through acquisitions. Stero Dishwashing Machine Mfg. Company was acquired during 1985. Stero is a West Coast producer of warewashing systems with national brand recognition. In January 1986, a definitive agreement was signed whereby Hobart would acquire the Vulcan-Hart Corporation. Vulcan-Hart is a leading manufacturer of high-quality gas cooking equipment. These businesses will enable Hobart to expand into new areas and better serve the changing needs of its customers.

Through the marketing of innovative new products and extensions of its existing lines, Hobart strengthened its position in the retail food market during the year.

Everything comes clean with Hobart's new undercounter dishwashers that fit compactly into small commercial kitchens and turn out sanitized dishes in less than 2½ minutes.

HOBART

These polished and brushed decorative metals featured in new colors are shining examples of the diverse Wilsonart *brand laminate line.*

The growing trend toward in-store specialty food departments in supermarkets continued to provide good growth opportunities for Hobart's weighing and wrapping and food preparation equipment. Hobart is responding to this major segment of the commercial food equipment market with such new products as its economical and efficient *Film Mizer* electronic stretch wrapper for meat and produce items. Its new *Scalemaster* networking system links supermarket scales to provide up-to-the-minute information on inventory turnover, product sales and better pricing control.

Hobart, which operates the largest and most widely recognized sales and service organization in its industry, took steps during 1985 to further leverage this advantage. Accelerated order entry systems were implemented, and both sales and service training capabilities were expanded in order to provide more responsive service to the Hobart customer.

Internationally, sales continued to improve. During the year, Hobart made significant progress in establishing a new management team for Europe to implement the company's accelerated growth strategy for the European markets. Canadian operations posted substantially higher results, largely due to the successful introduction of cooking equipment to the Canadian foodservice market.

Additionally, export sales of Hobart's U.S. and European products to other international markets continued to grow, especially in the Far East where the demand for technologically advanced foodservice equipment is on the increase.

Ralph Wilson Plastics Co., producer and distributor of *Wilsonart* brand decorative laminates, the U.S. market leader, achieved good volume growth, posted increased profit and expanded its market share despite intense competitive pricing conditions in the industry. A healthy construction economy and product line extensions contributed to these gains.

Much of the *Wilsonart* brand's success lay in its continuing emphasis on low-cost production, fast delivery and a broad line of colors and patterns, both in traditional, high-pressure decorative laminates and in other decorative surfacing products.

For the best grip, commercial builders grab Lokweld *contact adhesive when installing* Wilsonart *brand laminates.*

1984 *1985*

Volume of Wilsonart *brand decorative laminates grew 7 percent, leading to an all-time high in market share.*

Early in 1985, the company introduced a line of decorative metals for high-end commercial and residential interiors. Steady market share advances accompanied expanded color and pattern choices in the decorative Tambours line, and a significant addition to the selection of colors in *Solicor,* a *Wilsonart* colorthrough decorative laminate, created new interest in both this product and the traditional line.

Focus continued on the company's full line of specialty-grade laminates, including *Chemsurf* chemical-resistant laminates, *Tufsurf* II enhanced abrasion-resistant laminates and fire-rated laminates. In light of increasingly stringent commercial building codes, these product lines are only a few examples of the company's quick response to specific market needs. As well as adding volume growth, they have attracted new customers to the full *Wilsonart* line.

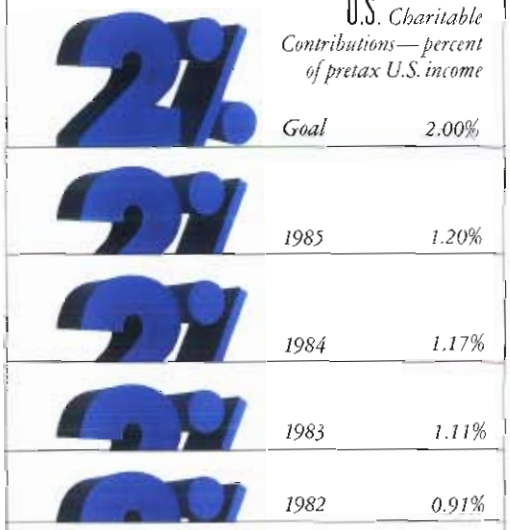
During the year, construction began in Temple, Texas, on what will be the most modern and efficient plant for high-pressure laminates in the world. This new facility will enable the *Wilsonart* decorative laminate business to better serve the nation's Southern and Western regions. The first phase of the expansion program is scheduled for completion during the summer of 1986.

Corporate Citizenship

Dart & Kraft's high-quality products and services and equitable employment practices are its most important contributions to the communities it serves. In addition, financial contributions, volunteer programs and various affirmative action efforts add another significant dimension to the relationship between corporate and community well-being. These efforts serve to encourage the development of human potential and thus strengthen society as a whole.

Within this broad spectrum, the areas of nutrition and physical fitness, betterment of educational institutions, economic development and community development are of particular interest to the company. Additionally, special attention is given to programs and activities that address the needs and interests of minorities, women and disabled people. Dart & Kraft and its business units give priority to innovative and sound funding proposals directed toward these specific focus areas.

In 1985, contributions to philanthropic organizations were $7.69 million, an increase of 14 percent, which represents 1.2 percent of pretax domestic income. The company is making slow but steady progress toward its stated objective of giving 2 percent of U.S. pretax income to benefit nonprofit organizations whose efforts meet company guidelines.



Total contributions include over $455,000 to match employee gifts to educational and philanthropic organizations. This amount represents an annual increase of 16 percent in dollars contributed and a 31-percent increase in participants in the company's Employee Matching Gift Program.

Dart & Kraft also contributed products valued at almost $3 million to nonprofit organizations. The majority of the company's product donations were food items provided by Kraft to the Second Harvest National Foodbank for dissemination to community food banks throughout the country.

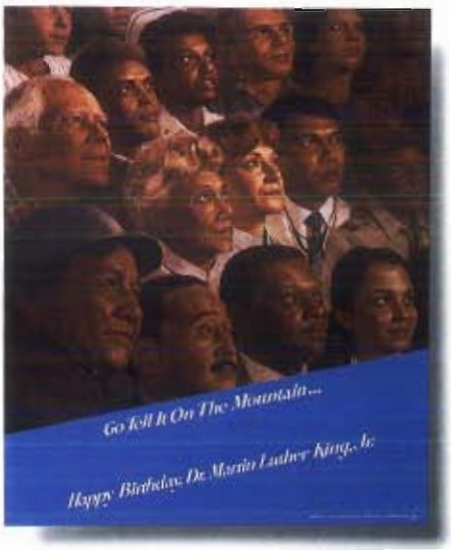
Under its corporate-wide Affirmative Action Program, Dart & Kraft continued in 1985 to devote substantial effort to the recruitment, hiring, promotion and training of minorities and women. During the year, the percentage of women officials and managers in the United States reached 15.6 percent, and professionals increased to 33.9 percent. Minority officials and managers in the United States rose to 6.8 percent, while professionals advanced to 9.9 percent. More detailed information, in the form of consolidated EEO statistics, is available to shareholders upon request to the Secretary.

The company's affirmative action thrust also includes a strong commitment to purchasing goods and services from minority-owned businesses. In 1985, total Dart & Kraft purchases from minority businesses were more than $25.2 million, an increase of 27 percent over 1984.

In addition to purchasing as a means to further minority economic development, the company continues its close, long-standing working relationships with minority-owned banks. Corporate management is steadfast in its commitment to devote financial resources to the improvement of economic conditions in minority communities. Likewise, Dart & Kraft's support provides opportunities for minority banks to expand their customer base beyond the local community, thus providing them a greater degree of financial stability.

U.S. Charitable Contributions—percent of total contributions

DART & KRAFT
National Urban League
Partners, fostering an environment of cooperation and opportunity.
DART & KRAFT
CEDCO
BUSINESS ENTERPRISE CENTER
Employee Matching Gift Program
4-H
For Youth
Youth For Understanding
International Student Exchange
Guidelines for Charitable Giving



Kraft commemorates the 1986 birthday of Dr. Martin Luther King, Jr. by offering a free poster of a commissioned painting depicting a choir of mankind.

The company's 1985 deposits of tax payments in 14 minority banks totaled $68 million, while time deposits of over $3 million were placed with 55 minority banks. The company also maintained a $12-million line of credit, supported by a $600,000 compensating deposit balance, with a consortium of 34 minority banks.

As part of a company-wide commitment to help provide educational and training opportunities to minority students with business career interests, Dart & Kraft and its business units awarded 13 grants to applicants through the Dart & Kraft/National Urban League Scholarship and Intern Program in 1985. The program, which began in 1984 as a partnership between Duracell and the National Urban League, helps outstanding minority students finance their upper-class college education and prepare themselves for business life by participating in practical, on-the-job, work experiences.

In 1985, seven $10,000 scholarships were given to recipients who also were offered summer internships at company facilities. Six additional $1,000 awards were presented to runners-up. In late spring of 1986, seven scholarships of $1,000 will be given to outstanding minority graduates of high schools attended by each of the 1985 major winners. This aspect of the program is designed not only to reward student excellence but also to create more awareness of successful role models among minority youth.

As the company seeks innovative ways to concentrate more of its community relations efforts within the areas of special interest that it has identified, Chicago was selected as a proving ground where concepts could be tested, opportunities discovered and techniques developed. Successful projects will become models that can be adapted to other communities where applicable.

One such project is directed toward inner-city economic development. Believing that job creation in the future will continue to be generated mainly by small businesses, Dart & Kraft has taken a leadership position in helping the Chicago Economic Development Corporation (CEDCO) establish a Business Enterprise Center. This small-business incubator, in addition to providing space and centralized services, will offer the participating entrepreneurs on-site business consultation, training programs and access to equity and loan financing opportunities. The CEDCO incubator will differ from others in that it will be operated as a nonprofit organization. When the facility, which is now undergoing renovation, is open later in 1986, it will house 10 to 15 small start-up and existing light manufacturing and assembly-type businesses. After a reasonable period of time, those that are capable will move out on their own—thus making way for newcomers.

Kraft's award-winning Consumer's Right to Know program provides large-type booklets and recorded information for the visually impaired.

"A box.

We think we know what it holds, but we can be surprised, enriched and delighted when the box holds more."

... Kraft public television announcement.

During the year, Dart & Kraft also addressed ways to improve living conditions in low-income communities. For instance, to help reverse the spread of urban decay in Chicago's inner-city neighborhoods, the company joined with other major corporations to establish the Chicago Equity Fund, a low-income housing rehabilitation program. The investments made by these partners become part of the equity needed by local community groups seeking to obtain financing for housing rehabilitation projects. During the year, 12 projects, representing 521 housing units, were funded.

As an international corporation, Dart & Kraft's community concerns

extend beyond U.S. urban and rural areas. They also center in countries in which the company operates and reach across other national borders where massive resources are needed to address disaster situations.

For example, through its membership in the Industry Council for Development, the company is an active participant with other business and private voluntary organizations in a joint project to work with farmers and governments in the Sahel drought areas of Africa on local tree-planting programs. Tree farming provides cash income and stabilizes the soil while holding moisture reserves, which is necessary to the long-term solution of food production in this stricken area of the world.

Additionally, substantial direct support was provided for Mexican earthquake and Puerto Rican landslide relief efforts. Dart & Kraft also gave a leadership grant to help the American Red Cross cover its unprecedented disaster relief costs incurred in the last half of 1985.

Employee volunteer activities, which are encouraged and supported by the company, increased during the year as employees donated their time and skills to numerous charitable organizations.

At Hobart, employees and retirees served in a variety of volunteer roles through the company's recently established Community Active Retirees & Employees Program. Encompassing a broad range of community services, this program matches the skills of Hobart people with those needed by 80 nonprofit groups located in Miami County, Ohio, that have registered over 400 unfilled volunteer positions. Hobart volunteers may also apply to the program for donations to projects that will, in turn, allow nonprofit organizations to better serve the community.

Through the Community Active Retirees & Employees Program, Hobart people, working with Big Brothers/Big Sisters, have become active as adult companions to children of single-parent families. They provide consulting services to agencies and are volunteer members of the Troy Emergency Crew, an organization that provides standby first aid, water rescue and ambulance service. They assist in libraries and serve on boards of senior citizen centers, hospitals and United Ways.

During the year, Kraft, in cooperation with Jobs for Youth/Chicago, provided job training for a number of economically disadvantaged young people. The new program offers selected young people the opportunity to acquire specialized, highly marketable skills during six-week training sessions at Kraft's headquarters. It also serves as a source of potential employees, since several of the youths are later hired by the company.

At the *Wilsonart* brand laminate plant in North Carolina, active recruiting, hiring and training of handicapped people who have the potential to meet or exceed job requirements are a tradition. For this advocacy of disabled persons, the plant was named Employer of the Year by the Asheville Mayor's Committee on Employment of the Handicapped.

To draw public attention to the missing children problem being advanced by Child Find, Inc., Kraft printed 40,000 posters which were distributed by sales representatives to food markets nationwide.

A challenge grant provided by Tupperware and four other Orlando-based companies helped to raise nearly 700 additional gifts totaling $655,000 for the area Arts United Fund.

DATAHR is a Connecticut nonprofit organization that plays a critical role in providing an array of comprehensive services for people with mental, physical, emotional and sensory disabilities. A major Duracell grant that includes providing *Precor* physical fitness equipment will help DATAHR equip its new facility for a day treatment program serving victims of traumatic brain injury.

The cultural strength of a community has long been recognized as a significant factor in the quality of life of its residents. Dart & Kraft and its business units support both established and emerging arts organizations. In 1985, Tupperware joined other Orlando companies in providing a special challenge grant to the Arts United Fund of Central Florida. As a result, Arts United's 1985 contributions represent a significant portion of the total contributed from all sources to this organization since its creation three years ago.

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Summary of Selected Financial Data

Dart & Kraft, Inc. and Subsidiaries

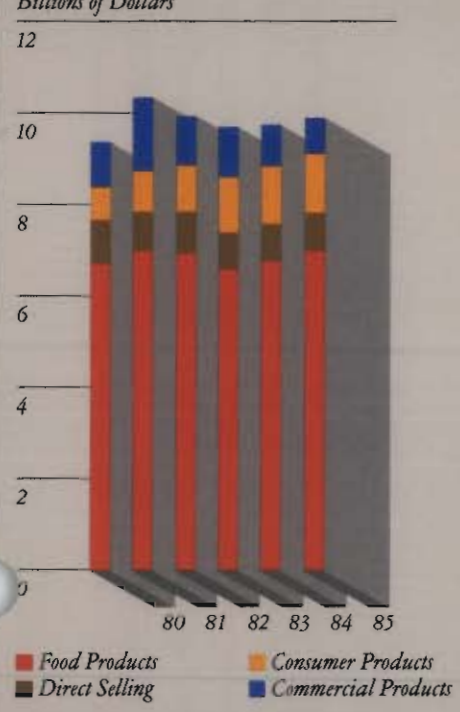
(Dollars in millions, except per share)	1985	1984	1983	1982	1981
Summary of operations					
Net sales	$ 9,942	$ 9,759	$ 9,714	$ 9,974	$10,211
Costs and expenses—					
Cost of products	6,633	6,656	6,683	7,098	7,452
Delivery, sales and administrative expense	2,439	2,255	2,200	2,122	1,990
Interest expense	96	112	87	116	126
Interest income	(57)	(77)	(68)	(64)	(41)
Other income, net	(17)	(35)	(5)	(46)	(68)
Total costs and expenses	9,094	8,911	8,897	9,226	9,459
Income from operations	848	848	817	748	752
Nonoperating items	–	–	–	(91)	(108)
Income before income taxes	848	848	817	657	644
Provision for income taxes	382	392	382	307	296
Net income	$ 466	$ 456	$ 435	$ 350	$ 348
Dividends	$ 219	$ 209	$ 210	$ 197	$ 185
Per share of common stock:					
Net income from operations	$ 3.22	$ 3.01	$ 2.64	$ 2.52	$ 2.45
Net income	3.22	3.01	2.64	2.13	2.12
Dividends	1.52⅓	1.38	1.28	1.20	1.13⅓
Financial position					
Current assets	$ 3,139	$ 3,149	$ 3,356	$ 3,165	$ 2,968
Current liabilities	1,746	1,829	1,617	1,487	1,570
Working capital	1,393	1,320	1,739	1,678	1,398
Property, plant and equipment, net	1,570	1,438	1,430	1,473	1,565
Total assets	5,502	5,285	5,418	5,134	5,054
Long-term debt	452	522	563	616	552
Shareholders' equity	2,880	2,598	2,923	2,774	2,718
Per share of common stock	$ 19.95	$ 18.09	$ 17.77	$ 16.89	$ 16.60
Statistical information					
Return on total capital	14.7%	15.5%	13.3%	11.1%	11.3%
Return on average equity	17.0%	16.5%	15.3%	12.8%	13.0%
Long-term debt to equity	15.7%	20.1%	19.3%	22.2%	20.3%
Capital expenditures	$ 262	$ 269	$ 212	$ 336	$ 346
Depreciation	171	170	171	189	198
Payroll and employee benefits	$ 1,804	$ 1,676	$ 1,744	$ 1,647	$ 1,707
Average number of employees	73,318	72,286	77,139	79,933	88,498
Number of shareholders at year-end	72,249	70,807	74,443	78,808	83,393
Number of shares of common stock outstanding at year-end (thousands)	144,334	143,627	164,483	164,237	163,702
Average number of common and common equivalent shares (thousands)	144,898	151,589	164,887	164,265	163,796

Number of shares and per-share data reflect a three-for-one stock split in 1985.
In 1985, the LIFO inventory method of accounting was adopted for substantially all domestic inventories.

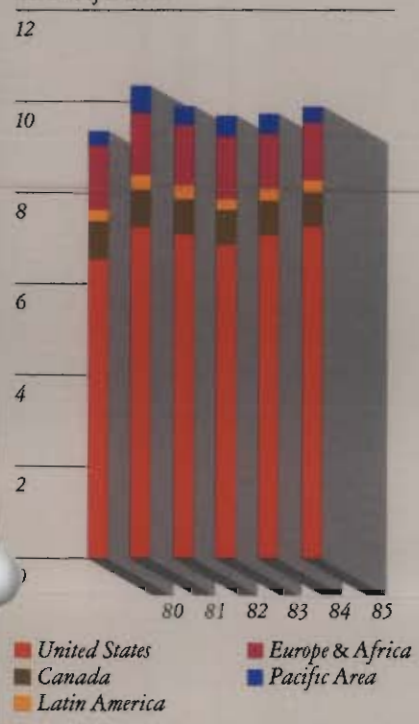
Management's Discussion and Analysis

Dart & Kraft, Inc. and Subsidiaries

Product Segments
Sales



Geographic Segments
Sales



Results of Operations

Sales and Earnings. Net sales for 1985 were $9.94 billion, an increase of 2 percent over the $9.76 billion in 1984. Excluding the effect of discontinued operations, sales rose 4 percent with all business segments having increases with the exception of Direct Selling. Sales increased 3 percent in the United States and 9 percent in Europe, while all other areas were down primarily due to the effect of adverse currency exchange rates.

Net income for 1985 was $466.1 million versus $455.8 million last year, up 2.3 percent. Earnings per share were $3.22 compared with $3.01 in 1984, a gain of 7 percent. There were 4 percent fewer average shares outstanding this year due to the company's stock purchase program in 1984.

Earnings for 1985 were affected by the change to the last-in, first-out (LIFO) method of inventory accounting for substantially all domestic inventories. This change increased net income by $17.5 million, or 12 cents per share, for fiscal 1985. The switch to LIFO had a favorable effect on earnings due to declines in raw material costs, primarily cheese and edible oils. The LIFO method is considered preferable as it results in a better matching of current costs and revenues.

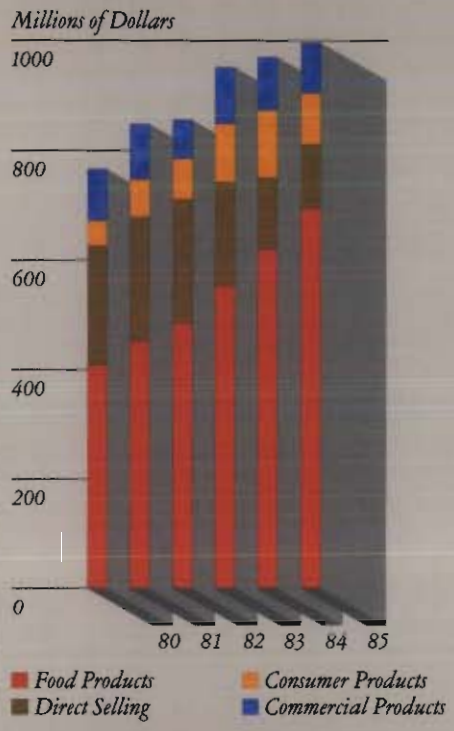
Results for 1985 were marked by the excellent growth of the Kraft, Hobart commercial equipment and *Wilsonart* brand decorative laminate businesses, which offset profit declines at Tupperware, Duracell, West Bend and KitchenAid.

Net sales in 1984 were $9.76 billion compared with $9.71 billion in 1983. On a continuing-operations basis, sales increased 2 percent. Net income in 1984 totaled $456 million, a 5-percent increase from $435 million in the previous year. Earnings per share were $3.01, compared with $2.64 per share in 1983, an increase of 14 percent. In 1984, there were 8 percent fewer average shares outstanding. Kraft, Hobart, Duracell and the *Wilsonart* brand decorative laminate business all posted good gains from year-earlier levels, more than offsetting Tupperware's lower performance.

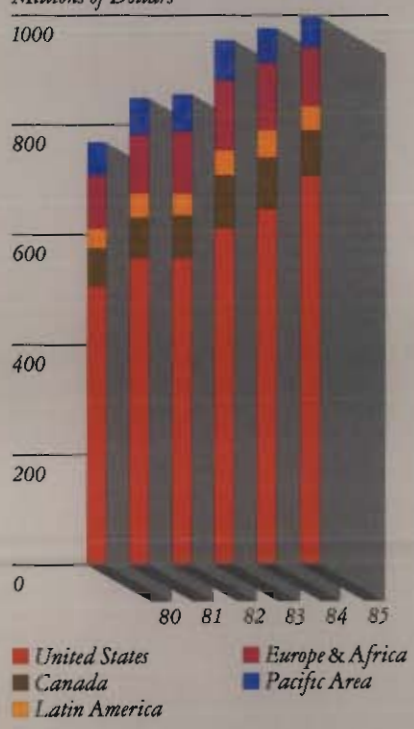
Segment Results. Dart & Kraft operates in four major business segments: Food Products, Direct Selling, Consumer Products and Commercial Products. Kraft, Inc. is the sole component of the Food Products segment and Tupperware International is the sole component of the Direct Selling segment. Consumer Products consists of the Duracell, KitchenAid, West Bend and Health Care businesses. Commercial Products consists of Hobart commercial equipment and *Wilsonart* brand decorative laminates.

Food Products. Sales of the Food Products segment were up 3 percent to $7.1 billion in 1985 and operating profit rose 14 percent to $700 million. The gain in sales was attributable to newly acquired businesses, higher volume and a favorable mix that more than offset the effect of lower selling prices and adverse foreign exchange rates. The Retail Food Group experienced a strong profit improvement as the result of higher tonnage and prices, lower raw material costs and the positive effect arising from the change to the LIFO inventory method. Cheese, viscous salad dressings and packaged dinners had strong profit gains for the year. In the Foodservice Group, sales and profit were well above last year on higher tonnage across all major product lines. The Dairy Group achieved higher results, reflecting good tonnage growth in

Product Segments
Operating Profit



Geographic Segments
Operating Profit



both ice cream and cultured dairy products, together with lower raw material costs. Industrial Foods Group profit was off sharply from last year as margins were negatively impacted by edible-oil market price declines. In Kraft's International Group, profit was lower mainly due to poor results in Germany and Venezuela. Kraft Canada trailed last year because of competitive conditions that resulted in reduced volume.

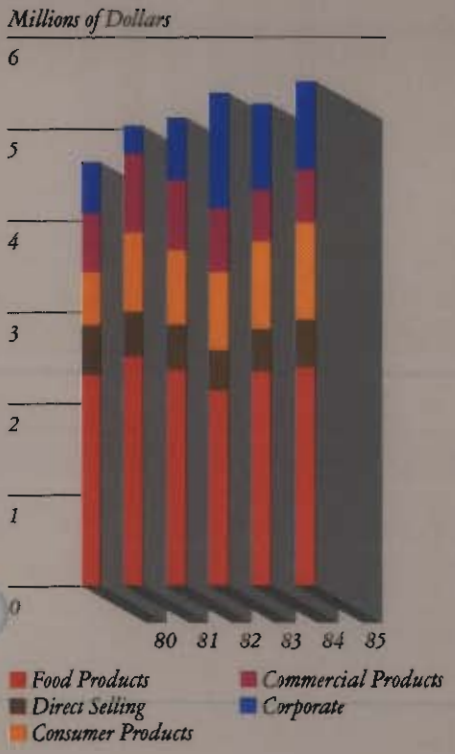
In 1984, sales increased 3 percent and operating profit rose 11 percent. The increase in sales was largely due to higher selling prices, partially offset by a decline in tonnage and adverse foreign exchange rates. Operating profit was higher in each of Kraft's operating groups, except for the Dairy Group, mainly as a result of lower operating expenses and higher margins partially stemming from reduced raw material costs. The Retail Food Group led the performance with strong profit gains in cheese, salad dressing products and packaged dinners. The Industrial Foods and Foodservice groups achieved good profit gains on higher volume. Kraft's International Group registered higher profit on gains in Europe and Latin America. The Dairy Group reported lower results mainly because of lower ice cream tonnage.

Direct Selling. Tupperware sales for 1985 were down 2 percent to $762 million and operating profit was $112 million, a decline of 19 percent. The sales decline stemmed from the effect of adverse foreign currency exchange rates and lower volume, with some benefit coming from higher selling prices. In the United States, sales were up over last year while profit was off due to higher marketing and advertising expenses, lower volume and start-up costs associated with the new *Ultra 21* Ovenware line that was introduced in the second quarter. Profit from Tupperware's foreign operations was down mainly due to declines in Europe and in Latin America, which included a $5-million write-down of assets in Brazil.

In 1984, sales and operating profit were down 6 percent and 27 percent, respectively. Worldwide, the number of parties held declined and the total dealer force was 7 percent lower than the previous year. Profit was adversely affected by lower volume, the continued strength of the U.S. dollar, start-up costs associated with *Ultra 21* Ovenware and charges relating to plant consolidations.

Consumer Products. In 1985, Consumer Products sales were 6 percent higher at $1.3 billion, while operating profit dropped 22 percent to $92 million. Duracell achieved a 7-percent increase in sales due to volume and selling price increases, but profit was off 12 percent for the year. The profit decline was largely due to higher manufacturing expenses and costs associated with product improvements and new product development. Also contributing to the profit decline was the diversion by exporters of foreign-made *Duracell* batteries for sale in the United States and Canada. Duracell's European and developing alkaline markets, particularly Mexico, achieved good profit gains, despite foreign currency effects. West Bend profit trailed last year largely due to soft market conditions in housewares and lower export sales to Japan. The profit shortfall was partially tempered by contributions from new product lines. Health Care operations gained in sales but operating profit declined. KitchenAid registered higher sales on increased

Product Segments
Total Assets



volume, while profit fell due to an unfavorable sales mix and reduced manufacturing utilization for cooking equipment. In January 1986, the KitchenAid operations were sold to Whirlpool Corporation.

In 1984, the Consumer Products segment had a 5-percent increase in sales and a 13-percent increase in operating profit. The segment gain was led by Duracell where sales rose 4 percent, while operating profit increased 45 percent. A strong domestic performance was attributable to good volume growth in alkaline batteries, the new *Durabeam* lighting products line and improved operating efficiencies. Duracell's foreign operations also reported improved results on higher volume despite adverse foreign currency effects. West Bend profit was down due to dispositions of its retail aluminum cookware and humidifier businesses. KitchenAid experienced higher sales; however, profit was down due to a five-week work stoppage at a principal manufacturing facility and higher promotional and development costs.

Commercial Products. Sales of the Commercial Products segment for 1985 were $801 million, a decline of 11 percent. Operating profit was $94 million, down 7 percent from the preceding year. On a continuing-operations basis, sales and profit increased by 7 percent and 10 percent, respectively. Hobart benefited from higher volume in most of its operations, particularly in domestic and Canadian equipment sales. The *Wilsonart* brand decorative laminate business achieved solid sales and profit gains on good volume growth despite intense competitive pressures. Profit was also enhanced by improved operating efficiencies.

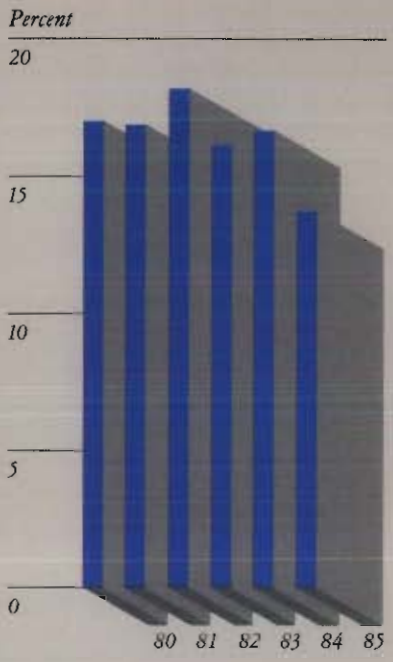
In 1984, total sales and operating profit were down 14 percent and 4 percent, respectively, due to the absence of the Plastic Specialties, Universal Packaging and Rexcel businesses which were sold in 1984. Hobart achieved higher results on volume gains in foodservice warewashers and refrigerators, together with reduced operating expenses. *Wilsonart* brand decorative laminates reported higher sales and profit mainly due to a 13-percent increase in volume.

Interest Expense and Income. Interest expense was $96 million in 1985, compared with $112 million in 1984 and $87 million in 1983. The $16-million decrease in 1985 was attributable to a lower level of borrowings and a decline in short-term interest rates. In 1984, interest expense was $25 million greater than the previous year primarily due to higher borrowings, partially offset by the effect of lower interest rates.

Interest income was $57 million in 1985, $77 million in 1984 and $68 million in 1983. The decrease in 1985 from 1984 was due to a lower level of average funds invested and lower interest rates. The $9-million increase in 1984 was the result of a higher level of investments over that of the preceding year.

Other Income. Other income declined $19 million in 1985, following a $30-million increase in 1984. These changes were primarily attributable to gains in 1984 relating to dispositions of businesses and a gain arising from the termination of the tender offer to acquire CFS Continental, Inc. in that year. In addition, 1985 included a greater gain on bond repurchases and lower foreign exchange losses than the previous year.

Long-Term Debt to Total Capital



Income Taxes. The effective tax rate on income was 45.1 percent, compared with 46.3 percent and 46.7 percent for 1984 and 1983, respectively. The lower tax rate in 1985 is substantially due to the effect of lower taxes on foreign subsidiary earnings and higher investment tax credits.

The slightly lower rate in 1984 compared with 1983 was the result of higher investment tax credits and lower foreign currency translation losses, partially offset by higher taxes on foreign subsidiary earnings.

Inflation. Despite the slowing of inflation in recent years, it continues to have an effect on economies worldwide. In order to counteract these effects, the company continues to take steps to maintain its profit margins through implementation of cost reduction and productivity improvement programs and timely price increases within the constraints of highly competitive markets.

Information regarding the effects of changing prices is presented in The Effects of Inflation on Dart & Kraft, starting on page 53.

Financial Condition

Liquidity and Capital Resources. In 1985, as in the past, cash provided from operations was Dart & Kraft's principal source of funds. Cash provided from operations in 1985 amounted to $759 million, compared with $582 million in 1984 and $918 million in 1983.

The company continues to be in a strong financial position with a double-A credit rating by the major agencies. Cash and temporary investments were over $500 million at the end of 1985 and 1984. Working capital was nearly $1.4 billion at the end of 1985, up slightly from $1.3 billion at the end of 1984. The current ratio in 1985 was 1.8, compared with 1.7 a year ago. Accounts receivable days outstanding were the same in both years, while days supply in inventory declined 8 percent from 1984.

In addition to its own internally generated funds, Dart & Kraft also has numerous sources of financing available, including commercial paper, bank loans and other forms of financing in worldwide financial markets, to meet seasonal requirements. On December 28, 1985, the company had approximately $980 million of available borrowing under its lines of credit, including a $500-million revolving credit agreement.

Long-term debt decreased $70 million during the year to $452 million at December 28, 1985. As a percentage of total capitalization, long-term debt was 14 percent and 17 percent at the end of 1985 and 1984, respectively.

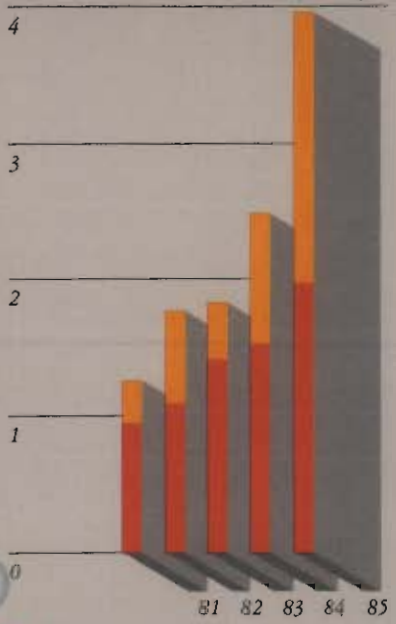
Capital Expenditures. Dart & Kraft invested $262 million in property, plant and equipment in 1985, down slightly from the $269 million invested in 1984.

In 1985, slightly over half of the capital expenditures was for improved efficiency and replacement of existing facilities with the remainder for expansion. Last year, two-thirds was for improvements and replacements and one-third for expansion. On a geographical basis, capital expenditures in 1985 amounted to $189 million in the United States, $14 million in Canada and $59 million in all other countries.

Capital expenditures are expected to be between $275 million and $300 million in 1986.

Cumulative Return* on Dart & Kraft Stock Versus S&P 500 (1.1.81)

Year-End Basis in $1.00 Invested (1.1.81)



**Dividends Reinvested in DKI*

Common Stock Prices and Dividends

The principal market for the company's common stock is the New York Stock Exchange. The quarterly market price ranges of Dart & Kraft common stock and dividends paid during 1985 and 1984, restated for the three-for-one stock split in 1985, were as follows:

	1985			1984		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$31½	$27⅞	$.35⅓	$24⅝	$21⅝	$.32
Second Quarter	36⅝	29¾	.39	26¾	23⅝	.35⅓
Third Quarter	38⅜	33⅝	.39	27	23¾	.35⅓
Fourth Quarter	44⅞	36	.39	29⅛	25⅝	.35⅓

Dividends paid to shareholders amounted to $219 million in 1985, compared with $209 million in 1984 and $210 million in 1983. The lesser amount of aggregate dividends paid in 1984 is reflective of fewer shares outstanding due to the company's stock repurchase program in early 1984.

Although dividends are reviewed quarterly, it is normally the May Board of Directors meeting at which the dividend is considered in depth.

There were approximately 72,500 holders of record of Dart & Kraft common stock as of February 18, 1986.

Consolidated Statement of Income

Dart & Kraft, Inc. and Subsidiaries

(Amounts in millions, except per share) Years Ended	Dec. 28, 1985	Dec. 29, 1984	Dec. 31, 1983
Net sales	$9,942.3	$9,758.7	$9,714.0
Costs and expenses			
Cost of products	6,633.2	6,655.4	6,683.4
Delivery, sales and administrative expense	2,438.5	2,255.4	2,200.6
Interest expense	95.8	111.8	86.5
Interest income	(56.9)	(76.8)	(68.0)
Other income, net	(16.6)	(35.2)	(5.2)
Total costs and expenses	9,094.0	8,910.6	8,897.3
Income before income taxes	848.3	848.1	816.7
Provision for income taxes	382.2	392.3	381.6
Net income	$ 466.1	$ 455.8	$ 435.1
Net income per common and common equivalent share	$ 3.22	$ 3.01	$ 2.64
Average number of common and common equivalent shares	144.9	151.6	164.9

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position

Dart & Kraft, Inc. and Subsidiaries

(In millions) Years Ended	Dec. 28, 1985	Dec. 29, 1984	Dec. 31, 1983
Cash provided from operations			
Net income	$ 466.1	$ 455.8	$ 435.1
Items not resulting in cash flow:			
Depreciation and amortization	191.4	182.2	178.6
Deferred income taxes	49.2	42.6	58.9
(Increase) decrease in working capital (except cash, temporary investments and borrowings) adjusted for translation	52.3	(98.2)	245.8
Cash provided from operations	759.0	582.4	918.4
Dividends paid	(219.3)	(208.5)	(210.4)
Investments			
Capital expenditures	(261.9)	(268.7)	(211.9)
Book value of properties sold	25.0	44.8	42.1
Business acquisitions and divestitures, net	(82.1)	(34.9)	(2.5)
(Increase) decrease in investments and long-term receivables	(70.2)	35.5	(41.8)
(Increase) decrease in prepaid employee benefit and pension costs	13.0	6.9	(86.1)
Other	7.6	(2.3)	(11.1)
Cash used for investments	(368.6)	(218.7)	(311.3)
Financing			
Purchase of treasury stock	–	(531.7)	–
Decrease in long-term debt	(69.6)	(34.3)	(55.9)
Increase (decrease) in short-term borrowings	(143.4)	162.7	6.2
Cash used for financing	(213.0)	(403.3)	(49.7)
Increase (decrease) in cash and temporary investments	$(41.9)	$(248.1)	$ 347.0

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheet

Dart & Kraft, Inc. and Subsidiaries

(Dollars in millions)	Dec. 28, 1985	Dec. 29, 1984
Assets		
Cash, time deposits and certificates of deposit	$ 210.8	$ 201.0
Temporary investments, at cost which approximates market	319.2	370.9
Total cash and temporary investments	530.0	571.9
Accounts and notes receivable, less allowances of $37.5 in 1985 and $32.6 in 1984	1,026.5	962.5
Inventories	1,582.7	1,614.7
Total current assets	3,139.2	3,149.1
Investments and long-term receivables	328.8	247.3
Prepaid and deferred items	164.9	175.1
Property, plant and equipment:		
Land	49.5	49.5
Buildings and improvements	740.9	700.1
Machinery and equipment	1,894.5	1,706.0
Construction in progress	127.5	97.2
	2,812.4	2,552.8
Less—Accumulated depreciation	(1,242.3)	(1,115.1)
	1,570.1	1,437.7
Intangibles, less amortization	298.8	275.7
	$ 5,501.8	$ 5,284.9

(Dollars in millions, except par value)	Dec. 28, 1985	Dec. 29, 1984
Liabilities and Shareholders' Equity		
Accounts and drafts payable	$ 509.8	$ 531.6
Short-term borrowings	137.5	280.9
Accrued compensation	207.0	164.5
Other accrued liabilities	515.2	481.6
Accrued income taxes	348.0	341.1
Current portion of long-term debt	28.9	28.8
Total current liabilities	1,746.4	1,828.5
Long-term debt	451.9	521.6
Deferred income taxes	290.0	220.9
Other liabilities	133.3	115.9
Shareholders' equity:		
Preferred stock, $5.00 par value, authorized 150,000,000 shares; issued—none	–	–
Common stock, $1.00 par value, authorized 600,000,000 shares; issued 164,735,955 shares	164.7	137.3
Capital surplus	317.5	347.5
Retained earnings	3,191.8	2,945.0
Treasury stock, 20,402,106 shares in 1985 and 21,108,522 shares in 1984, at cost	(503.3)	(519.9)
Unearned portion of restricted stock issued for future services	(1.0)	(1.0)
Cumulative foreign currency adjustments	(289.5)	(310.9)
Total shareholders' equity	2,880.2	2,598.0
	$ 5,501.8	$ 5,284.9

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

Dart & Kraft, Inc. and Subsidiaries

(Shares in thousands, dollars in millions) For the Three Years Ended December 28, 1985	Number of Shares		Amounts				
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus	Retained Earnings	Cumulative Foreign Currency Adjustments
Balance, December 31, 1982	164,363.7	127.3	$137.0	$(1.9)	$344.5	$2,473.0	$(176.6)
1983 net income	–	–	–	–	–	435.1	–
Dividends	–	–	–	–	–	(210.4)	–
Restricted Stock Plan	42.2	22.5	–	(.4)	.9	–	–
Stock options exercised	199.9	4.6	.2	(.1)	3.1	–	–
DM bond conversion	31.3	–	–	–	.6	–	–
Translation adjustments	–	–	–	–	–	–	(80.4)
Balance, December 31, 1983	164,637.1	154.4	137.2	(2.4)	349.1	2,697.7	(257.0)
1984 net income	–	–	–	–	–	455.8	–
Dividends	–	–	–	–	–	(208.5)	–
Restricted Stock Plan	1.8	(8.1)	–	.3	–	–	–
Stock options exercised	94.2	(333.7)	.1	8.2	(.2)	–	–
DM bond conversion	2.9	(230.7)	–	5.7	(1.4)	–	–
Purchase of treasury stock	–	21,526.8	–	(531.7)	–	–	–
Other	–	(.2)	–	–	–	–	–
Translation adjustments	–	–	–	–	–	–	(53.9)
Balance, December 29, 1984	164,736.0	21,108.5	137.3	(519.9)	347.5	2,945.0	(310.9)
1985 net income	–	–	–	–	–	466.1	–
Dividends	–	–	–	–	–	(219.3)	–
Restricted Stock Plan	–	(46.0)	–	1.2	.4	–	–
Stock options exercised	–	(562.5)	–	13.0	(2.3)	–	–
DM bond conversion	–	(97.9)	–	2.4	(.7)	–	–
Change in par value	–	–	27.4	–	(27.4)	–	–
Translation adjustments	–	–	–	–	–	–	21.4
Balance, December 28, 1985	164,736.0	20,402.1	$164.7	$(503.3)	$317.5	$3,191.8	$(289.5)

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Dart & Kraft, Inc. and Subsidiaries

December 28, 1985

Note 1: Summary of Significant Accounting Policies

Fiscal Year

In 1984, the company changed from a calendar year to a fiscal year ending on the last Saturday of December. The fiscal years ended December 28, 1985, and December 29, 1984, were composed of 52 weeks.

Accounting Change

In 1985, the company changed its method of determining cost for substantially all domestic inventories from the first-in, first-out (FIFO) and average cost methods to the last-in, first-out (LIFO) method. The change was made because it results in a better matching of current costs and revenues. The effect of the change was to increase net income in 1985 by $17.5 million, or 12 cents per share. The adoption of LIFO had no effect on prior years' financial results.

Basis of Consolidation

The consolidated financial statements include the accounts of the company and all significant subsidiaries. Investments in subsidiaries engaged in leasing, real estate and insurance businesses are accounted for by the equity method. All significant intercompany accounts and transactions are eliminated in consolidation.

Translation of Foreign Currencies

Assets and liabilities of subsidiaries, other than those located in highly inflationary countries, are translated at the rates of exchange on the balance sheet date. Income and expenses are translated at the average rates of exchange prevailing during the year, and the related translation adjustments are accumulated in shareholders' equity. Foreign currency gains and losses resulting from transactions and the translation of financial statements of subsidiaries in highly inflationary countries are included in income.

Inventories

Inventories are valued at the lower of cost or market. Prior to 1985, cost was determined using the average cost method for food products and the FIFO cost method for most other products. Beginning in 1985, substantially all domestic inventories are valued on the LIFO cost method. For other inventories, approximately 40 percent, the FIFO cost method is generally used. Inventory cost includes cost of raw material, labor and overhead. Because of the nature of the business, it is impracticable to segregate inventories into raw materials, work in progress and finished goods.

At December 28, 1985, if inventories valued on the LIFO method had been valued using the FIFO method, they would have been lower by approximately $52.9 million. This includes $18.6 million related to inventories that were valued on the LIFO method in prior years.

Property and Depreciation

Properties are stated at cost. Depreciation is determined on a straight-line basis over estimated useful lives. For certain machinery and equipment, depreciation is determined on a composite basis over estimated group lives. Generally, the estimated useful lives are 10 to 45 years for buildings and improvements, and 3 to 20 years for machinery and equipment.

On routine disposals of depreciable assets accounted for on a composite basis, the gross book value less the proceeds or salvage value is charged to accumulated depreciation. On all other sales or retirements of property, plant and equipment, gain or loss is recognized. Expenditures for maintenance and repairs are charged to expense.

Intangibles

The excess of cost over the fair value of net assets of businesses acquired and other intangibles is being amortized over periods ranging up to 40 years.

Advertising and Research and Development Costs

Advertising and research and development costs are charged to expense as incurred.

Undistributed Earnings of International Subsidiaries

Federal income taxes are provided on the portion of each international subsidiary's earnings that is not expected to be invested permanently. At December 28, 1985, approximately $761 million of such undistributed earnings were considered to be invested permanently.

Net Income Per Share

Net income per common and common equivalent share is based upon the weighted average number of common shares actually outstanding during the period increased by the effect of dilutive stock options.

Note 2: Financing Arrangements

The short-term borrowings and the long-term debt of the company are summarized below:

Short-Term Borrowings

(In millions)	1985	1984	1983
Commercial paper	$ 9.9	$210.2	$ 74.1
Bank loans and notes	127.6	70.7	44.1
Total short-term borrowings	$137.5	$280.9	$118.2
Weighted average interest rate at year-end	10.7%	12.6%	10.9%
Average borrowings during the year	$249.0	$316.8	$132.3
Weighted average interest rate for the year	11.0%	12.4%	16.5%
Maximum borrowings during the year	$356.6	$477.1	$196.4

The average borrowings and weighted average interest rates were determined by using period-end borrowings and the interest rates applicable to them.

The company had unused lines of credit amounting to $980 million at December 28, 1985, including a $500-million revolving credit agreement.

Long-Term Debt

(In millions)	1985	1984
4⅜%–9⅛% sinking fund debentures due 1992–2007	$166.7	$243.2
4%–15¼% notes due 1987–1995	152.1	144.1
7¾% debentures due 1998	61.9	61.1
Other	71.2	73.2
Total long-term debt	$451.9	$521.6

The amounts shown as outstanding by the company at December 28, 1985, exclude amounts provided for payment and sinking fund requirements included in current liabilities and $138.6 million of debentures held in treasury in excess of current sinking fund requirements.

Excluded from debt and assets are certain borrowing arrangements in foreign currencies for which there are related deposits or receivables of equivalent amounts. In the event of default by either party, there is provided under these arrangements a right of offset allowing defaulted principal and accrued interest to be offset against the related repayment obligation. At December 28, 1985, these loans totaled $71.2 million.

Interest expense on long-term debt was $49.4 million in 1985, $52.9 million in 1984, and $53.9 million in 1983.

Total principal payments due on long-term debt, after deducting amounts held in treasury, in the five years subsequent to December 28, 1985, are as follows: 1986–$28.9 million; 1987–$112.9 million; 1988–$33.2 million; 1989–$29.8 million; 1990–$26.0 million.

Under an agreement with Dart & Kraft Financial Corporation (Financial), an unconsolidated subsidiary, the company has undertaken certain support obligations in connection with the borrowings of that subsidiary, including the obligation to make payments, if required, to Financial sufficient to cause Financial's pretax earnings before interest expense to be at least 1.15 times its interest expense. At the end of 1985, Financial had borrowings of $655.1 million, which are not guaranteed by Dart & Kraft, at a weighted average interest rate of 9.4 percent. Furthermore,

in January 1986, Financial issued in the Eurobond market $100 million of 10¼ percent notes due in 1996.

In addition, under an agreement with Dart Resorts Inc., an unconsolidated subsidiary, the company has undertaken contingent payment obligations with respect to notes issued by that subsidiary in 1983. At December 28, 1985, $63.5 million of such notes, which are not guaranteed by Dart & Kraft, were outstanding at a weighted average interest rate of 11.4 percent.

Operating Leases

Rental expense for operating leases (reduced by sublease income of approximately $3 million in 1985, and $4 million in 1984 and 1983) totaled $94.5 million in 1985, $85.3 million in 1984, and $87.1 million in 1983. Approximate minimum rental commitments under noncancelable operating leases in effect at December 28, 1985, are: 1986–$57.3 million; 1987–$45.0 million; 1988–$36.3 million; 1989–$30.0 million; 1990–$25.3 million; and, after 1990–$107.6 million. Future sublease rental income is approximately $23.5 million.

Note 3: Shareholders' Equity

Stock Split and Authorized Stock

On May 2, 1985, shareholders approved a three-for-one split of the common stock, an increase in authorized common stock from 200,000,000 to 600,000,000 shares, a reduction in the par value of the common stock from $2.50 to $1.00 per share, and an increase in authorized preferred stock from 50,000,000 to 150,000,000 shares. These changes in the capital structure became effective May 17, 1985. Where applicable, the number of shares and amounts related to common stock and per share computations have been adjusted to reflect these changes.

Common Stock Purchase Rights

At December 28, 1985, there were issued and outstanding 144.3 million common stock purchase rights. The rights were declared as a dividend in September 1985 at the rate of one right for each outstanding share of common stock. Each right entitles the holder to purchase one share of common stock at an exercise price of $100. The rights are not exercisable or transferable apart from the common stock until a person or group has acquired 20 percent or more, or makes a tender offer for 30 percent or more, of the common stock. If the company is acquired in a merger or other business combination transaction, each right will entitle the holder to purchase common stock of the acquiring company having a market value of two times the exercise price of the right. The rights are redeemable at ten cents each prior to public announcement that a person or group has acquired beneficial ownership of 20 percent or more of the outstanding common stock. The rights expire on September 16, 1995.

Note 4: Stock Options

During 1985, options to purchase 634,404 shares under stock option plans of the company were exercised at prices ranging from $11.88 to $28.17 per share, and options for 210,012 shares lapsed or were cancelled or voided. Options for 1,577,600 shares were granted during the year and, at December 28, 1985, 868 employees (including officers) held options under stock option plans of the company to purchase 4,411,880 shares at prices ranging from $11.88 to $40.90 per share. At that date, options for 2,370,378 shares were exercisable and 8,967,200 shares were reserved for future option grants. Proceeds from options exercised during the periods were reflected in the treasury stock, common stock and capital surplus accounts. No charges have been reflected in income for any period with respect to these options to purchase shares.

Stock appreciation rights granted to holders of certain options allow the election to surrender these options for payment of an amount in cash or common stock, at the discretion of the administering committee, equal to the excess of the fair market value at the surrender date over the option price of the options surrendered.

Note 5: Foreign Currency

Currency exchange rate fluctuations can affect the carrying value of an investment in a foreign subsidiary. For subsidiaries located in countries not experiencing a high rate of inflation, the effects of such rate fluctuations are recorded directly in shareholders' equity.

The cumulative foreign currency adjustments included in equity at the beginning and end of 1985, together with changes during the year, by geographic segment are as follows:

(In millions)	Canada	Latin America	Europe & Africa	Pacific Area	Worldwide Total
Balance December 29, 1984	$(20.8)	$(58.1)	$(178.6)	$(53.4)	$(310.9)
Changes in 1985	(12.1)	(2.5)	50.4	(14.4)	21.4
Balance December 28, 1985	$(32.9)	$(60.6)	$(128.2)	$(67.8)	$(289.5)

The effects of currency rate changes on subsidiaries located in highly inflationary countries and gains and losses arising from foreign currency transactions are included in net income. Net income included foreign exchange losses of $21.4 million in 1985, $27.2 million in 1984, and $27.6 million in 1983.

Note 6: Income Taxes

The provision for income taxes consists of the following:

(In millions)	1985	1984	1983
Current:			
Federal	$124.1	$152.4	$166.7
Foreign	84.0	110.6	108.5
State	34.8	38.5	31.9
	242.9	301.5	307.1
Deferred:			
Federal	132.5	77.6	68.8
Foreign	6.1	14.9	2.0
State	.7	(1.7)	3.7
	139.3	90.8	74.5
Provision for income taxes	$382.2	$392.3	$381.6

Deferred income tax provisions, resulting from differences between accounting for financial statement purposes and accounting for tax purposes, were as follows:

(In millions)	1985	1984	1983
Depreciation	$126.7	$100.8	$ 56.0
Accrued expenses not deductible until paid	6.0	(13.0)	(27.0)
Investment tax credit related to leveraged leases	31.4	13.4	–
Pre-funded employee benefits	(8.5)	(15.6)	47.8
Other	(16.3)	5.2	(2.3)
Tax effects of timing differences	$139.3	$ 90.8	$ 74.5

The differences between the provision for income taxes and income taxes computed using the U.S. federal income tax rate were as follows:

(In millions)	1985	1984	1983
Amount computed using the statutory rate	$390.2	$390.1	$375.7
Increase (reduction) in taxes resulting from:			
State taxes	19.2	19.9	19.2
Foreign income	4.0	11.1	4.7
Investment tax credit (flow-through method)	(22.6)	(17.2)	(13.0)
Other	(8.6)	(11.6)	(5.0)
Provision for income taxes	$382.2	$392.3	$381.6

The domestic and foreign components of income before income taxes were as follows:

(In millions)	1985	1984	1983
Domestic	$640.3	$575.1	$568.0
Foreign	208.0	273.0	248.7
Total income before income taxes	$848.3	$848.1	$816.7

Dart & Kraft Financial Corporation, while not consolidated for financial reporting, is included in Dart & Kraft's consolidated U.S. federal and state income tax returns. Taxes provided by the consolidated companies shown in the preceding tables include the effect of significant tax credits and deductions of Financial arising primarily from its leasing activities.

Note 7: Retirement and Incentive Compensation Plans

Pensions Plans

The company has several pension plans covering substantially all domestic employees and certain employees in other countries. In addition to its own pension plans, the company contributes to various joint industry and union pension plans.

The total pension expense for all plans was $24.4 million in 1985, $21.5 million in 1984, and $43.1 million in 1983, and includes amortization of past service costs over periods ranging up to 30 years. The decrease in 1984 pension expense was primarily due to a change in assumed investment rate of return to more closely match the anticipated investment performance. The company's actuarial cost method used in determining pension expense of its major domestic plans is the projected unit credit method. The assumed investment rate of return on pension fund assets was 8 percent in both 1985 and 1984. In general, annual cash contributions are made to the plans equal to the amount accrued for expense.

A comparison of accumulated plan benefits and plan net assets for all the company's domestic defined benefit plans as of the latest valuation dates is presented below.

(In millions)	January 1, 1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$ 718.1	$ 676.4
Nonvested	34.0	34.3
	$ 752.1	$ 710.7
Net assets available for benefits	$1,063.3	$1,062.2

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits for these plans was 8 percent in 1985 and 1984.

The actuarial value of accumulated benefits or net assets available for benefits is not calculated for all pension plans outside the United States. For those plans for which a determination was made, the total of the pension funds and accruals exceeded the actuarially computed value of vested benefits as of the latest valuation dates. For various joint industry and union-sponsored plans, information is not available from the plans' sponsors to permit the company to determine its share of unfunded vested benefits.

There are also several thrift and profit-sharing plans. The total cost of these plans was $26.9 million in 1985, $27.2 million in 1984, and $22.1 million in 1983.

During 1985, the Financial Accounting Standards Board issued new standards on employers' accounting for pensions. Companies are required to adopt the new accounting and disclosure standards no later than 1987. Early adoption is permitted. Based upon a preliminary review, the company does not expect that the new standards, when adopted, will have an adverse impact on either its financial position or results of operations.

Postretirement Benefits

In addition to providing pension benefits, the company provides certain postretirement health care and life insurance benefits for domestic and Canadian employees. Employees become eligible for those benefits if they meet retirement criteria while working for the company. The cost of retiree health care and life insurance benefits is recognized as expense as claims become known. Such costs were $11.0 million in 1985, $11.4 million in 1984, and $10.5 million in 1983.

Incentive Plans

Key employees, including officers of the company, earned approximately $16.8 million for 1985, $21.1 million for 1984, and $19.5 million for 1983 under annual profit incentive plans. These plans covered 737 employees for 1985, 784 employees for 1984, and 775 employees for 1983, and did not include any director of the company who was not an employee.

A Restricted Stock Plan provides for awards of common stock to selected employees, subject to forfeiture if employment terminates prior to the end of the prescribed restricted period. At December 28, 1985, certain employees held 132,870 shares of restricted common stock of the company. The company's Performance Unit Plan provides for awards of cash and/or common stock of the company to selected employees, based upon the attainment of prescribed performance criteria. At December 28, 1985, there were 5,685,540 shares reserved for issuance under these plans.

Note 8: Contingencies

The company and its subsidiaries are parties against which are pending a number of legal and administrative proceedings (including several private actions, some seeking treble damages, based on alleged violation of the antitrust laws) which are incidental to the business. In the opinion of the company's General Counsel, the outcome of such proceedings will not affect materially the company's consolidated financial position or operations.

Note 9: Business Acquisitions and Divestitures

In 1985, the company acquired approximately 75 percent of the stock of Invernizzi S.p.A., an Italian food products business. In addition, Dart & Kraft Financial Corporation acquired Leaseway Fleet Management Corp., a vehicle leasing business. During 1984, the company sold its Plastic Specialties and Universal Packaging businesses and acquired the businesses of Celestial Seasonings, Inc. and Lender's Bagel Bakery, Inc. During the last three years, the company acquired and disposed of a number of other businesses.

On January 31, 1986, the company announced that it had completed the sale of its KitchenAid operations to Whirlpool Corporation for approximately $150 million in cash. The after-tax gain of $41 million arising from the sale will be included in 1986 earnings.

The combined sales and income before taxes of all of these businesses are not material to the company's consolidated financial statements.

Note 10: Supplementary Statement of Income Information

(In millions)	1985	1984	1983
Maintenance and repairs	$158.3	$152.9	$158.1
Depreciation	170.9	169.8	171.3
Taxes other than payroll and income taxes	49.9	45.8	38.3
Advertising	441.7	418.6	339.6
Research and development	85.9	83.4	73.6

Note 11: Segments of the Business

The company operates principally in four industries—food products, direct selling, consumer products and commercial products.

Segments of Business by Classes of Products—Three-Year Summary

(In millions)		1985	1984	1983
Net sales	Food Products			
	Retail Food	$3,289.9	$3,189.4	$3,016.2
	Dairy	621.4	591.8	701.8
	Foodservice	889.7	773.3	686.4
	Industrial Foods	531.3	576.0	486.3
	International	1,733.0	1,707.2	1,769.7
	Total	7,065.3	6,837.7	6,660.4
	Direct Selling	761.7	776.9	825.1
	Consumer Products	1,314.8	1,244.8	1,181.0
	Commercial Products	800.5	899.3	1,047.5
	Net sales	$9,942.3	$9,758.7	$9,714.0
Operating profit	Food Products			
	Domestic	$ 545.3	$ 446.0	$ 388.1
	International	154.2	169.4	165.4
	Total	699.5	615.4	553.5
	Direct Selling	112.0	138.8	189.3
	Consumer Products	92.3	118.4	104.7
	Commercial Products	94.1	101.0	104.8
	Total operating profit	$ 997.9	$ 973.6	$ 952.3
	Corporate general expense	(84.8)	(52.7)	(84.3)
	Foreign currency loss	(25.9)	(37.8)	(32.8)
	Interest expense, net	(38.9)	(35.0)	(18.5)
	Income before income taxes	$ 848.3	$ 848.1	$ 816.7
Identifiable assets	Food Products			
	Domestic	$1,631.3	$1,615.4	$1,450.9
	International	786.4	701.1	680.9
	Total	2,417.7	2,316.5	2,131.8
	Direct Selling	510.3	488.0	462.7
	Consumer Products	1,024.7	958.8	828.0
	Commercial Products	583.4	556.9	727.6
	Corporate	965.7	964.7	1,268.0
	Total identifiable assets	$5,501.8	$5,284.9	$5,418.1

Segments of Business by Classes of Products—Three-Year Summary (Continued)

(In millions)		1985	1984	1983
Depreciation	Food Products			
	Domestic	$ 47.9	$ 50.0	$ 54.0
	International	20.4	18.9	19.2
	Total	68.3	68.9	73.2
	Direct Selling	35.0	28.9	36.0
	Consumer Products	39.6	42.9	26.9
	Commercial Products	23.2	23.9	30.4
	Corporate	4.8	5.2	4.8
	Total depreciation	$ 170.9	$ 169.8	$ 171.3
Capital expenditures	Food Products			
	Domestic	$ 74.9	$ 71.7	$ 58.0
	International	35.6	36.2	37.3
	Total	110.5	107.9	95.3
	Direct Selling	50.0	62.8	40.7
	Consumer Products	77.1	67.9	43.0
	Commercial Products	21.3	28.1	25.4
	Corporate	3.0	2.0	7.5
	Total capital expenditures	$ 261.9	$ 268.7	$ 211.9

Segments of Business by Geographical Areas—Three-Year Summary

(In millions)		1985	1984	1983
Net sales	United States	$7,316.9	$7,129.0	$6,905.3
	Canada	724.8	760.3	786.0
	Latin America	210.6	226.2	209.5
	Europe and Africa	1,311.5	1,205.6	1,349.7
	Pacific Area	378.5	437.6	463.5
	Net sales	$9,942.3	$9,758.7	$9,714.0
Operating profit	United States	$ 709.4	$ 645.9	$ 612.2
	Canada	80.7	91.4	96.1
	Latin America	42.0	52.7	39.1
	Europe and Africa	103.5	121.1	129.2
	Pacific Area	62.3	62.5	75.7
	Total operating profit	$ 997.9	$ 973.6	$ 952.3
Identifiable assets	United States	$3,120.4	$3,054.5	$2,882.1
	Canada	276.2	265.8	246.8
	Latin America	128.9	155.5	140.1
	Europe and Africa	741.4	539.6	582.9
	Pacific Area	269.2	304.8	298.2
	Corporate	965.7	964.7	1,268.0
	Total identifiable assets	$5,501.8	$5,284.9	$5,418.1

Note 11 (continued)

The segments of Dart & Kraft consisted of the following products: FOOD PRODUCTS—cheese and related products, vegetable oil-based products, dry packaged dinners, frozen desserts, cultured dairy products, herb teas and frozen bagels; DIRECT SELLING—plastic food-preparation, storage and serving containers; CONSUMER PRODUCTS—batteries and lighting products; dishwashers, cooking equipment and other home appliances; electric housewares, cookware, bathroom scales and physical fitness equipment; and disposable medical products; COMMERCIAL PRODUCTS—commercial food equipment; decorative laminates; chemical specialties, paper containers, flexible packaging materials (sold in 1984); and foamed polystyrene products (sold in 1983).

Of these products, the only class that accounted for more than 10 percent of consolidated sales is cheese and related products, with sales of approximately $3.2 billion in 1985, $3.1 billion in 1984, and $3.2 billion in 1983.

In the two segment tables, intersegment sales were immaterial except for $25.1 million in 1984 and $32.4 million in 1983 in the Commercial Products segment.

Operating profit is net sales less cost of products and delivery, sales and administrative expense other than corporate general expense. Identifiable assets are those assets that are identified with the operations of each segment. Corporate assets are principally cash and investments, including investments in unconsolidated subsidiaries. Sales to a single customer did not exceed 10 percent of total sales. Export sales were insignificant.

As of December 28, 1985, the company's net investment in international operations was $937 million.

Note 12: Quarterly Financial Summary (Unaudited)

The following is a summary of the unaudited interim results of operations for the years ended December 28, 1985, and December 29, 1984. Restatement of the previously reported 1985 interim results to reflect the adoption of the LIFO method of valuing substantially all domestic inventories increased net income by $4.5 million (3 cents per share) in the first quarter, $4.4 million (3 cents per share) in the second quarter, and $4.3 million (3 cents per share) in the third quarter.

(Dollars in millions, except per share) Year Ended December 28, 1985	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$2,344.6	$2,439.7	$2,499.3	$2,658.7
Cost of products	1,583.0	1,630.7	1,686.3	1,733.2
Net income	105.3	115.6	116.1	129.1
Net income per common and common equivalent share	$ .73	$ .80	$ .80	$ .89

(Dollars in millions, except per share) Year Ended December 29, 1984	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$2,414.1	$2,460.6	$2,405.8	$2,478.2
Cost of products	1,657.1	1,672.1	1,645.5	1,680.7
Net income	107.8	109.5	113.0	125.5
Net income per common and common equivalent share	$ .66	$ .71	$ .77	$ .87

Note 13: Unconsolidated Subsidiaries

The following is a summary of financial data of Dart & Kraft Financial Corporation, an unconsolidated subsidiary, which is engaged in vehicle and equipment leasing, including leveraged leasing of equipment:

(In millions)	1985	1984	1983
Summary of operations			
Revenues	$167.7	$120.4	$ 75.6
Income before income taxes	6.5	4.5	5.5
Net income	15.9	10.6	8.8
Assets			
Investments in leases and equipment	$833.5	$464.3	$261.1
Other assets	105.3	53.7	48.7
	$938.8	$518.0	$309.8
Liabilities and shareholder's equity			
Notes payable	$655.1	$361.5	$219.0
Other liabilities	175.7	104.4	61.7
Shareholder's equity	108.0	52.1	29.1
	$938.8	$518.0	$309.8

Other unconsolidated subsidiaries include a real estate subsidiary and an insurance subsidiary.

Auditors' Report

To the Board of Directors and Shareholders
of Dart & Kraft, Inc.:

We have examined the consolidated balance sheet of Dart & Kraft, Inc. (a Delaware corporation) and subsidiaries as of December 28, 1985, and December 29, 1984, and the related consolidated statements of income, shareholders' equity, and changes in financial position for each of the three years in the period ended December 28, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of certain wholly owned subsidiaries, whose net sales and total assets represent approximately 29% and 42%, respectively, of the related consolidated totals, were examined by other auditors and we were furnished with their report thereon.

As more fully explained in Note 1, in 1985 the company changed from the first-in, first-out and average cost methods to the last-in, first-out method of determining the cost of substantially all domestic inventories.

In our opinion, based on our examinations and the report of other auditors, the consolidated financial statements referred to above present fairly the financial position of Dart & Kraft, Inc. and subsidiaries as of December 28, 1985, and December 29, 1984, and the results of their operations and changes in their financial position for each of the three years in the period ended December 28, 1985, in conformity with generally accepted accounting principles, which, except for the change, with which we concur, in the method of accounting for inventories referred to in the preceding paragraph, have been applied on a consistent basis.

Arthur Andersen & Co.

Chicago, Illinois
February 7, 1986

Responsibility for Financial Statements

Management of Dart & Kraft is responsible for the preparation and integrity of the company's financial statements. These financial statements have been prepared in accordance with generally accepted accounting principles which include the use of management's best estimates and judgments where appropriate. All of the other financial information contained throughout this annual report is consistent with our financial statements.

In order to meet this responsibility, management maintains systems of internal controls, policies and procedures to ensure that its accounting, administrative procedures and reporting practices are of the highest quality and integrity. The company also maintains an internal auditing function that continually evaluates the adequacy and effectiveness of such internal controls, policies and procedures. The company's business ethics policy, which is regularly communicated to all key employees of the organization, requires employees to maintain the highest ethical standards in their conduct of company affairs.

As described on page 56, the Audit Committee of the Board of Directors, which is composed entirely of directors who are not employees of the corporation, meets periodically with the external and internal auditors and with management to satisfy itself that each is properly discharging its responsibilities. Both the external auditors and the internal auditors have unrestricted access to the Audit Committee.

John M. Richman
Chairman of the Board and
Chief Executive Officer

Roger H. Willis
Senior Vice President
Control and Systems

The Effects of Inflation on Dart & Kraft (Unaudited)

The following supplemental information is required by the Financial Accounting Standards Board as part of its program to develop financial reporting that will reflect the burden of inflation on companies. The disclosures below provide a measure of the impact of inflation on Dart & Kraft, but they should be used with caution because the accounting techniques used are experimental in nature and because other companies may have used different assumptions.

Restatement under the current cost method adjusts historical costs to reflect changes in the prices of assets used or goods purchased for processing and sale. As discussed in Note 1, in 1985 the company changed to the LIFO method of determining cost for substantially all domestic inventories. Under the LIFO method, cost of products reflects the effects of current cost changes. The adjustment to historical cost of products relates to inventories that are not on the LIFO method. Constant dollar information has been restated from historical data by means of the U.S. Consumer Price Index.

1985 Net Income Adjusted for Inflation
(In millions)

Income before income taxes as reported in the Consolidated Statement of Income	$848.3
Excess of historical cost of products over current cost of products (excluding depreciation)	10.0
Excess of current cost depreciation over historical depreciation*	(68.9)
Adjusted income before income taxes	789.4
Provision for income taxes as reported in the Consolidated Statement of Income	382.2
Adjusted net income	407.2
Purchasing power gain from net monetary position	30.7
Total	$437.9

*Total current cost depreciation was $239.8 million.

Since existing tax laws do not consider the distorting effects of inflation, the effective tax rate of 48.4 percent on current cost income is higher than the 45.1 percent effective rate on reported income.

Changes During 1985 in Cost of Inventories and Property, Plant and Equipment
(In millions)

Increase during 1985 in value of inventories and property, plant and equipment in constant dollars	$126.7
Increase during 1985 in current cost of these assets	60.8
Difference between increase in constant dollars and increase in current cost	$ 65.9

The current cost of inventory, $1,580.8 million, was determined primarily from actual market costs. Net property, plant and equipment's current cost of $2,320.3 million was calculated by the use of specialized indexes. Comparable historical cost amounts are $1,582.7 million and $1,570.1 million.

Comparison of Selected Supplemental Financial Data

(Dollars in millions, except per share, all current cost and constant dollar amounts in average 1985 dollars)	1985	1984	1983	1982	1981
Net sales					
—as reported	$9,942.3	$ 9,758.7	$ 9,714.0	$ 9,974.4	$10,211.0
—constant dollar	9,942.3	10,106.9	10,488.8	11,116.4	12,077.8
Net income					
—as reported	466.1	455.8	435.1	350.3	347.5
—current cost	407.2	304.1	285.2	248.9	237.6
Net income per common share					
—as reported	3.22	3.01	2.64	2.13	2.12
—current cost	2.81	2.01	1.73	1.52	1.45
Cash dividends declared per common share					
—as reported	1.52⅓	1.38	1.28	1.20	1.13⅓
—constant dollar	1.52⅓	1.43	1.38	1.34	1.34
Net assets					
—as reported	2,880.2	2,598.0	2,922.7	2,773.5	2,718.0
—current cost	3,570.9	3,486.7	4,029.6	4,180.7	4,228.0
Foreign currency translation adjustments					
—as reported	21.4	(53.9)	(80.4)	(106.0)	(76.9)
—current cost	25.4	(69.1)	(113.3)	(147.8)	(116.7)
Purchasing power gain from net monetary position in constant dollars	30.7	24.2	22.8	42.5	104.8
Increase in the constant dollar value of inventories and property, plant and equipment over (under) the current cost value increase in constant dollars	65.9	(58.3)	(4.1)	(113.1)	88.2
Common stock price per share at year-end					
—as reported	43.38	28.04	22.21	22.83	16.92
—constant dollar	42.69	28.63	23.58	25.16	19.36
Average U.S. Consumer Price Index	322.2	311.1	298.4	289.1	272.4

Officers

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Chairman of the Board and
Chief Executive Officer

Warren L. Batts
President and
Chief Operating Officer

Group Vice Presidents

Michael Allik
President
Specialty Products Group

E. M. Davis
President
Hobart Corporation

William L. Jackson
Chairman
Tupperware International

C. Robert Kidder
President
Duracell Inc.

Michael A. Miles
President and
Chief Operating Officer
Kraft, Inc.

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Senior Vice President
Financial Affairs

William W. Crawford
Senior Vice President
General Counsel and Secretary

Roger H. Willis
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Barbara L. Bowles
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John M. Costigan
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Ian J. A. Scott
Vice President
Information Systems

Paul B. Van Sickle
Vice President and
Controller

Directors and Committees of the Board

Board of Directors

John M. Richman[2,3*4]
Chairman of the Board and
Chief Executive Officer
Northbrook, Illinois

Warren L. Batts[3,4]
President and
Chief Operating Officer
Northbrook, Illinois

William O. Bourke[1,5]
President and
Chief Operating Officer
Reynolds Metals Company
Aluminum Products
Richmond, Virginia

Catherine B. Cleary[1,2,4*]
Retired Chairman of the Board
and Chief Executive Officer
First Wisconsin Trust Company
Trust Services
Milwaukee, Wisconsin

E. Mandell de Windt[2,3,5*]
Chairman of the Board and
Chief Executive Officer
Eaton Corporation
Vehicular and Electronic Components
Cleveland, Ohio

Lloyd C. Elam, M.D.[1,3,5]
Distinguished Professor
Meharry Medical College
Nashville, Tennessee

John F. McGillicuddy[2*4,5]
Chairman of the Board and
Chief Executive Officer
Manufacturers Hanover
Corporation and Manufacturers
Hanover Trust Company
Commercial Banking
New York, New York

Michael A. Miles[3]
Group Vice President
Dart & Kraft and President
and Chief Operating Officer
Kraft, Inc.
Glenview, Illinois

John S. Reed[1,3,5]
Retired Chairman of the Board
and Chief Executive Officer
Santa Fe Industries, Inc.
Transportation and Natural Resources
Chicago, Illinois

Edward R. Telling[2,3,5]
Retired Chairman of the Board
and Chief Executive Officer
Sears, Roebuck and Co.
Retailing, Insurance, Real Estate, Financial Services and International Trade
Chicago, Illinois

John L. Weinberg[1,2,4]
Senior Partner
Goldman, Sachs & Co.
Investment Banking
New York, New York

George G. Zipf[1*3,4]
Retired President and
Chief Operating Officer
The Babcock & Wilcox Company
and Vice Chairman
J. Ray McDermott & Co., Inc.
Industrial Products
Stuart, Florida

*Chairman

Committees

1. Audit Committee
The Audit Committee, composed of directors who are not employees of the corporation or any of its subsidiaries, recommends selection of the independent auditors; reviews matters pertaining to the audit, systems of internal control, and accounting policies and procedures; has approval authority with respect to services provided by the independent auditors; and directs and supervises investigations into matters within the scope of its duties.

2. Committee on Directors
The Committee on Directors identifies, reviews qualifications of, and recommends to the Board candidates for election as directors, and also acts on other matters pertaining to Board membership.

3. Executive Committee
The Executive Committee has most of the powers of the Board of Directors and can act when the Board is not in session.

4. Finance Committee
The Finance Committee reviews and makes recommendations to the Board regarding dividends, financial policies and procedures; has authority to approve various financial transactions; and reviews employee benefit plan investment performance and investment policies.

5. Management Compensation Committee
The Management Compensation Committee, composed of directors who are not employees of the corporation or any of its subsidiaries, directs the administration of various management incentive plans; takes action on, or makes recommendations to the Board on, salary changes for certain management personnel; makes recommendations to the Board concerning certain employee benefit plan matters; and makes various determinations under employee thrift and savings plans.

Corporate Information

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Transfer Agents

Manufacturers Hanover Trust Company
Securityholder Relations Department
P.O. Box 24935
Church Street Station
New York, New York 10249

State Street Bank and Trust Company
Stock Transfer Department
225 Franklin Street
Boston, Massachusetts 02101

Harris Trust and Savings Bank
Corporate Trust Operations
111 West Monroe Street
Chicago, Illinois 60603

Bank of America N.T. & S.A.
Stock Transfer Department
P.O. Box 37002
San Francisco, California 94137

The Royal Trust Company
Stock Transfer Department
630 Dorchester Boulevard West
Montreal 110, Quebec, Canada

Royal Trust Tower
Toronto-Dominion Centre
Toronto 116, Ontario, Canada

Price Waterhouse
447 Collins Street
Melbourne, 3001 Victoria
Australia

Registrars

Manufacturers Hanover Trust Company
New York

Continental Illinois National Bank and Trust Company of Chicago
Chicago

State Street Bank and Trust Company
Boston

Bank of America N.T. & S.A.
San Francisco

Montreal Trust Company
Montreal and Toronto

The Wales Nominees
(Vic.) Pty. Limited
Melbourne

Stock Exchanges

New York (principal market), Boston, Midwest, Pacific, Adelaide, Brisbane, Hobart, Melbourne, Perth, Sydney, London, Antwerp, Brussels, Paris, Frankfurt/Main, Amsterdam, Basel, Bern, Geneva, Lausanne, Zurich

U.S. Trading Symbol: DKI

Dividend Reinvestment Plan

Shareholders may build their investments in the company through the Dividend Reinvestment and Stock Purchase Plan. For enrollment information, write to:

Secretary
Dart & Kraft, Inc.
2211 Sanders Road
Northbrook, Illinois 60062

Inquiries relating to existing reinvestment accounts should be directed to:

Manufacturers Hanover Trust Company
Dividend Reinvestment Department
P.O. Box 24850
Church Street Station
New York, New York 10249

Auditors

Arthur Andersen & Co.

SEC Form 10-K

The company's Annual Report on Form 10-K most recently filed with the Securities and Exchange Commission will be provided without charge upon written request to: Secretary, Dart & Kraft, Inc., 2211 Sanders Road, Northbrook, Illinois 60062

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:30 a.m. on Thursday, May 1, 1986, at The Westin Hotel, North Michigan Avenue at Delaware Street, Chicago, Illinois.

Corporate Office

Dart & Kraft, Inc.
2211 Sanders Road
Northbrook, Illinois 60062
(312) 498-8000

Note

Trademarks on the cover and throughout this report are owned by the company. In the text, trademarks are indicated by the use of italics.

Dart & Kraft, Inc., 2211 Sanders Road, Northbrook, Illinois 60062

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